SHIMA SEIKI

Ever Onward

Annual Report 2007

Year Ended March 31, 2007

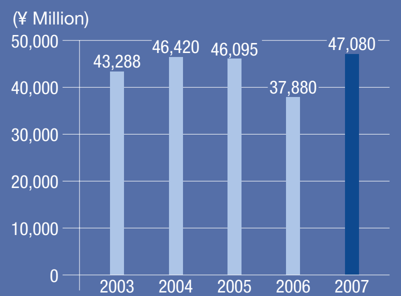
Financial Highlights

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007, 2006 and 2005

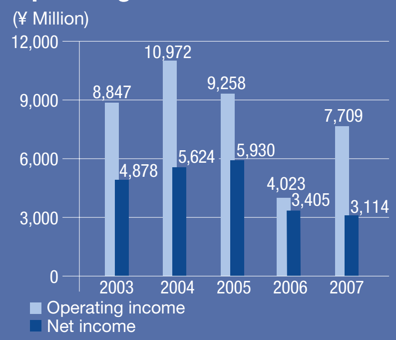
	2007	2006	2005		2007	2007
For the Year:	Millions of yen			Percent Change 2006/2007	Thousands of U.S. dollars	Thousands of euros
Net sales	**¥47,080**	¥37,880	¥46,095	**24.3%**	**$398,814**	**€299,244**
Operating income	**7,709**	4,023	9,258	**91.6%**	**65,303**	**48,999**
Income before income taxes and minority interests	**6,183**	5,293	9,518	**16.8%**	**52,376**	**39,300**
Net income	**3,114**	3,405	5,930	**-8.5%**	**26,379**	**19,793**
At Year-End:						
Total assets	**¥129,161**	¥109,302	¥107,234	**18.2%**	**$1,094,121**	**€820,956**
Net assets	**92,810**	95,522	92,299	**-2.8%**	**786,192**	**589,907**
Per Share Data:	Yen				U.S. dollars	Euros
Net income	**¥86.17**	¥91.92	¥159.97	**-6.3%**	**$0.73**	**€0.55**
Cash dividends applicable to the year	**37.50**	37.50	37.50	**0.0%**	**0.32**	**0.24**
Net assets	**2,546.71**	2,599.24	2,510.71	**-2.0%**	**21.57**	**16.19**
Ratios:	%					
ROA	**2.6%**	3.1%	5.6%			
ROE	**3.4%**	3.6%	6.6%			

Notes: Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥118.05=US$1 and ¥157.33= €1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2007.
Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries have adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. The figures in prior years have been restated to reflect this change.

Net sales



Operating income/Net income



Net income per share

Contents

Forward-looking statements:

Statements contained in this report regarding the Company's plans, strategies, and expectations for future performance fall into the category of "forward-looking statements," which are based on information available to the Company's management at the time of writing. They are therefore subject to a number of uncertainties and unknowable factors, and actual results may thus differ substantially from those projected.

Ever Onward

Based on this corporate motto, Shima Seiki strives to develop technologies that have never existed before. Moreover, as a comprehensive mechatronics company, Shima Seiki provides highly advanced products at economical prices and introduces continuous innovations to the industry.

Shima Seiki was incorporated as a small factory 45 years ago in the city of Wakayama by the current president, Masahiro Shima, who was a young engineer at the time, to address the difficult challenge of fully automating glove knitting machines.

This effort was rewarded three years later after overcoming numerous difficult issues. Its wealth of ideas and passion generated instantaneous fusion between mechanical and electronic technologies, which had been a frontier area in the apparel knitting machine field, and led to the creation of numerous new products.

The Company, which currently leads an industry with pioneering overseas manufacturers and which enjoys the position of top player leveraging these capabilities, released the WHOLEGARMENT® (seamless knitwear) flat knitting machine in 1995 to facilitate a shift from labor-intensive to knowledge-intensive structures in the knitwear industry.

The Company has grown into an enterprise that contributes to the global knitwear and apparel industry, leveraging its wide range of cost-competitive and highly functional products together with a strong sales network.

By devoting full efforts to developing innovative technologies by identifying needs from the customers' perspective, the Company, based on its core knitting machines and design systems, aims to creating an apparel culture that will spiritually enrich people around the world through its efforts to provide comprehensive services and information, including accumulated know-how and design.

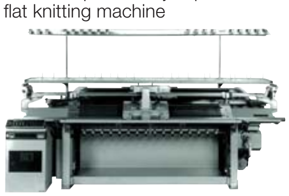
2003
The illuminated headquarters building

1995
SWG WHOLEGARMENT® flat knitting machine

2006
New York Design Center

2001
Milano Design Center

1978
SNC computerized jacquard flat knitting machine



The first machine

1978
Developed SNC computerized jacquard flat knitting machine

10,000 units

1987
Celebrated the 25th anniversary
Merged and acquired Shima Idea Center and Kamitani Electronic Industries

20,000 units

1992
Shares listed on the First Section of the Osaka Securities Exchange

30,000 units

1995
Exhibited the SWG, a totally seamless flat knitting machine, at the ITMA exhibition (Milan)

40,000 units

1998
Released SWG-FIRST®, WHOLEGARMENT® flat knitting machine equipped with newly developed SlideNeedle®

50,000 units

2001
Established Design Center in Milan, Italy

60,000 units

2003
Headquarters building illuminated

70,000 units

2004
Released SWG021 WHOLEGARMENT® flat knitting machine

Accumulated sales volume of computerized flat knitting machines reached a total of 80,000 units

2006
Initiated direct sales operations in the Chinese market and Europe (Italy)
Acquired a U.S. knitwear manufacturer and opened the New York Design Center
Released flat knitting machines in the SSG®/SIG® series

1998
SWG-FIRST® WHOLEGARMENT® flat knitting machine

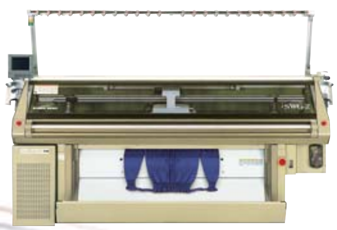
Abundant product lineup to satisfy market needs

Mechatronics and computer technologies—these two technologies serve as the basis for the Company's contribution to the growth of the global knitwear industry by providing unique products from proprietary expertise.

WHOLEGARMENT® flat knitting machine

Turned the world's first seamless knitwear into reality

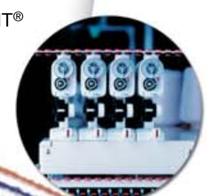
It was believed impossible to manufacture seamless, three-dimensional knitwear. However, WHOLEGARMENT® flat knitting machines made the impossible come true. In recognition of the abundant advantages, including but not limited to good fit and wearer comfort, attractive design, and high efficiency for manufacturing the necessary quantity as needed, WHOLEGARMENT® was adopted by major leading apparel brands, and used in such fields as sportswear and children's clothing.

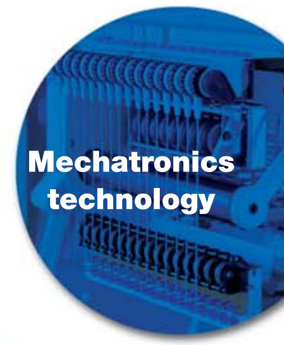


SWG-X WHOLEGARMENT® flat knitting machine

SWG041 WHOLEGARMENT® flat knitting machine

Development and production of knitting machines integrating mechanical and electronic technologies





Computerized flat knitting machine

Successive development of global standard machines

Quality, productivity, operability and cost efficiency are all integrated into the computerized flat knitting machine series. The SES series, launched in 1989, has established its position as a global standard machine. The new SSG® and SIG® model series, released in 2007 and which combined a high level of productivity and cost efficiency, have been highly evaluated by many users.

SSG®/SIG®-series computerized flat knitting machine

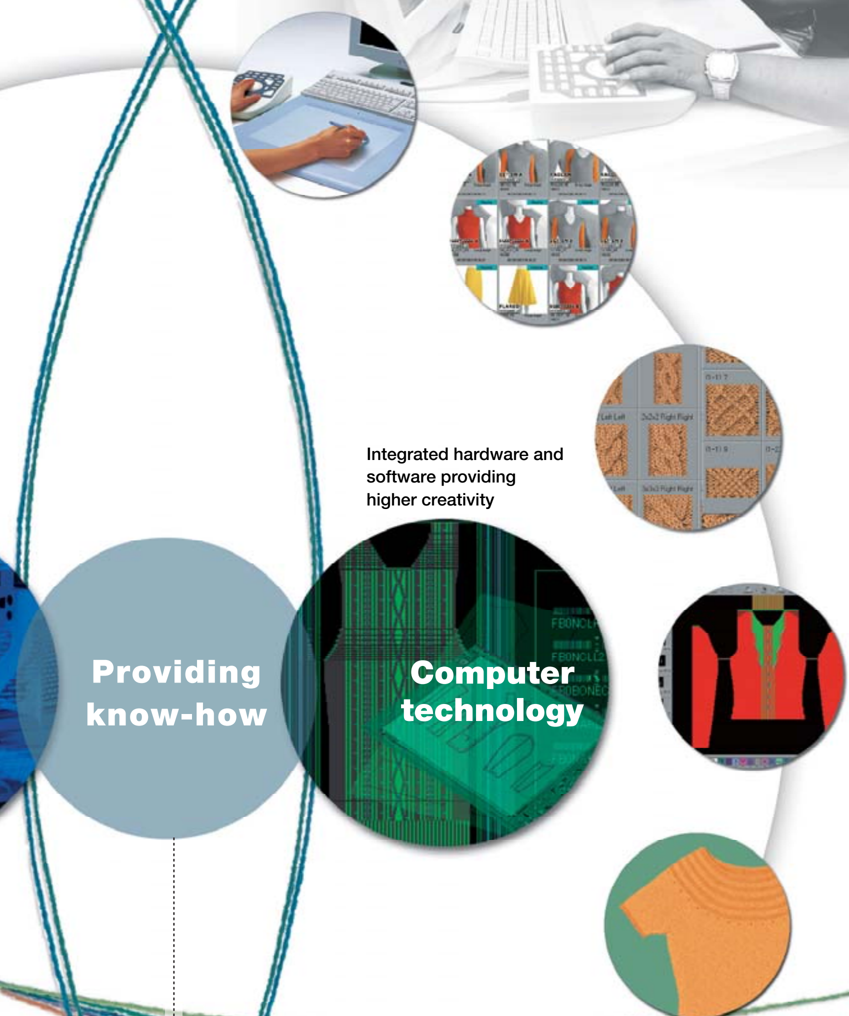
Glove and sock knitting machine

Technical originality represents the Company's original starting point

The challenge of fully automating the glove knitting machine came true for the first time in the world in 1965. The Company traces its history from this point. The Company is currently engaged in the expansion of uses for gloves beyond general work and thermal gloves, as well as fine-gauge technology for manufacturing gloves for use in medical applications and precision manufacturing.

NewSFG seamless glove knitting machine

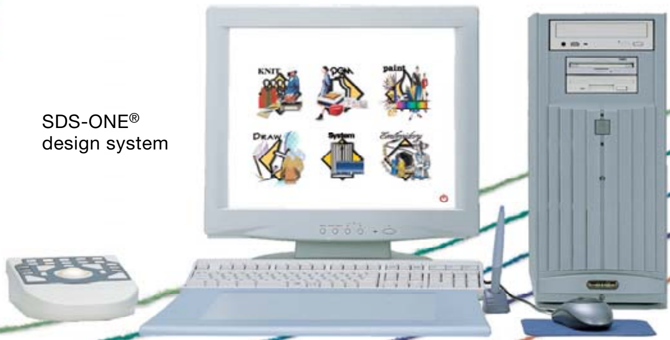
SPF-W seamless sock knitting machine



Design system

SDS-ONE® supports the efficient manufacture of high-quality products

SDS-ONE® is an “All-in-One” design tool that provides total support from product planning through design and sample production to sales promotion by working with flat knitting machine series. The tool allows simulation of different combinations of materials and colors on the screen prior to the actual knitting by the knitting machine. SDS-ONE® can directly express the designer’s vision and creativity and contribute to a significant reduction in time and costs for product planning.



SDS-ONE®
design system

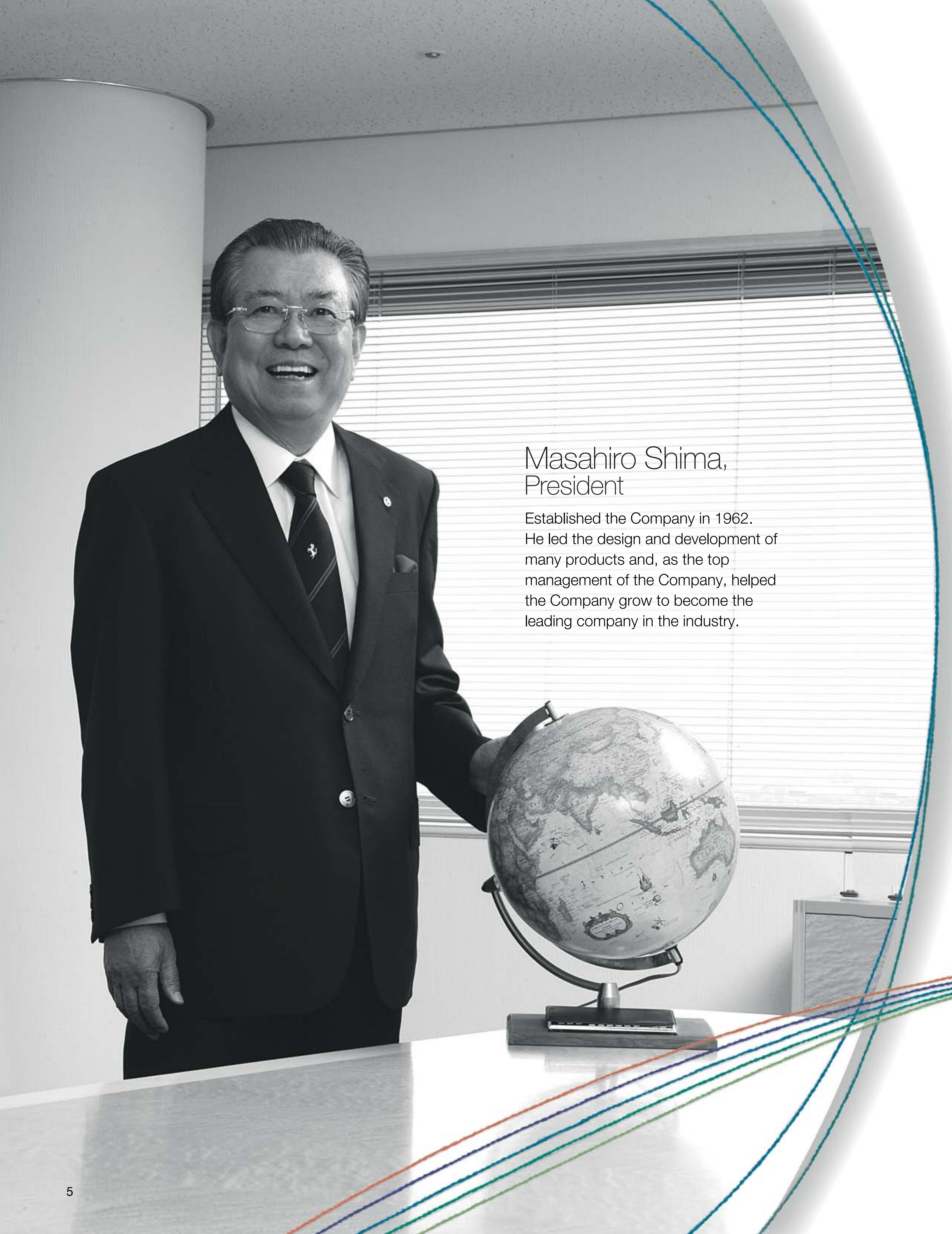
Transmission of know-how by design center

Propose know-how to create new value by combining hardware and software

The Company opened design centers in Japan, Italy, and the United States from which information is communicated to users throughout the world. The centers produce abundant samples by integrating cutting-edge trends and fashion and revealing the design source. They also offer the expertise to integrate hardware and software where users can fully leverage the performance of products.

Total Design Center

Sample Room



Masahiro Shima,
President

Established the Company in 1962. He led the design and development of many products and, as the top management of the Company, helped the Company grow to become the leading company in the industry.

Responding to Our Shareholders

During the period under review (the year ended March 31, 2007), the global knitwear production industry has been released from a temporary disturbance caused in the previous fiscal period and a recovery in capital investment has been marked in China and Hong Kong.
The Company's total sales hit a historic high and due to the strong sales of the Company's newly introduced models amid rapidly growing demand for flat knitting machines on the back of higher labor costs in the Chinese and Hong Kong market. The period marked a year of "innovation" when strategic business reform, such as the direct sales coverage in global important markets, moved forward.

Q1 Please summarize the Company's results for the year ended March 31, 2007.

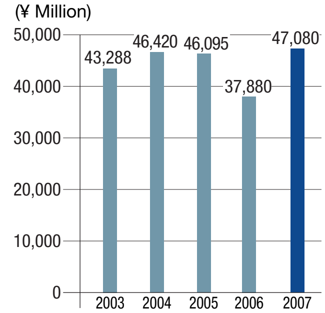
Global markets related to knitwear have been more clearly split into two categories; consumer production regions and labor-intensive mass production regions. In the Chinese and Hong Kong market, which is a mass production market, the current mainstream manual flat knitting machines have been replaced by computerized flat knitting machines. The new models that were introduced during the period under review have enjoyed a good reputation for their contribution to satisfying market needs. As a result, consolidated overseas sales for the period under review increased to 42,816 million yen (a 29.8% year-on-year increase). Full-scale operation of flat knitting machine production line of the new factory established at the end of 2005 has accommodated the ever growing order in the second half of the fiscal year.

Turning to the sales trend in Japan, the still high import volume of knitwear products that has prevented active capital investments by the knitwear and apparel industry resulted in consolidated domestic sales of 4,264 million yen (a 12.8% year-on-year decrease) in the period under review.

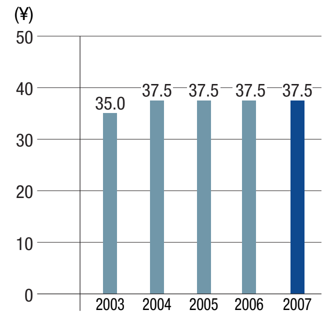
This has achieved record high consolidated net sales of 47,080 million yen (a 24.3% year-on-year increase). On the earnings side, operating income increased significantly to 7,709 million yen (a 91.6% year-on-year increase) due to such factors as the effect of declining costs induced by higher production. However, the Company reported net income of 3,114 million yen (a 8.5% year-on-year decrease), mainly because it recorded extraordinary losses associated with overseas business restructuring.

The Company issued convertible bonds in November 2006 with provisions for overseas direct sales coverage as the main purpose. The details are provided on page 25.

Net sales



Cash dividends per share

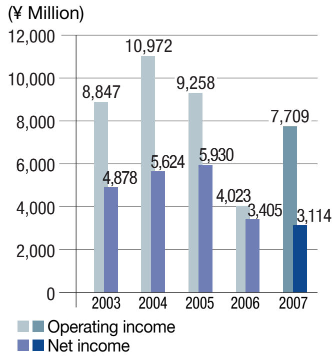


Management Tasks

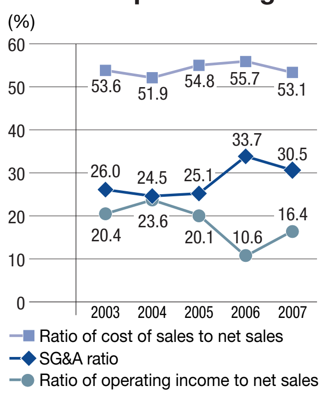
1. Increasing market share in the Asian market and stronger sales management capabilities
2. Penetration and expansion of sales of WHOLEGARMENT® flat knitting machines in consumer markets (Europe, United States, and Japan) in cooperation with design centers
3. Demonstrating advantages and promoting sales of SDS-ONE®, which enables the manufacture of apparel with high efficiency and high added value
4. Further solidified financial position and intensified risk management function

Responding to Our Shareholders

Operating income/ Net income



Trends in profit margins



Q2 Please provide information on the Company's dividends.

In accordance with the basic policy of "maintaining long-term stable dividends," the Company pays a year-end dividend of ¥20.00 per share for the period under review as originally planned, thus ¥37.50 per share for the full business year including the previously paid interim dividend of ¥17.50 per share.

Q3 How has the overseas business strategy progressed?

The Company's overseas sales accounted for as much as 90.9% of the total in the period under review due to the strong growth in the Chinese and Hong Kong market. Realizing the increasing importance of the sales strategy for overseas markets, the Company made drastic changes to its sales activities; switching from indirect sales through sales agents to direct sales in major markets during the period under review.

The Company has established sales coverage in the Chinese market, which is an important area for the Company with "increasing market share in the Asian Market" as the critical medium- to long-term issue, through its new subsidiary in Hong Kong set up to take over business operations from a sales agent that had been responsible for sales in China. In the United States, the Company acquired shares of a major knitwear manufacturer to turn it into a subsidiary and opened the New York Design Center. In Italy, the Company acquired shares of a sales agent to include it as a sales subsidiary. The purposes of shifting into a new system which has enabled the Company to directly demonstrate the advantages of its products in each market are shown under "Global Market Strategy" on pages 9 to 12.

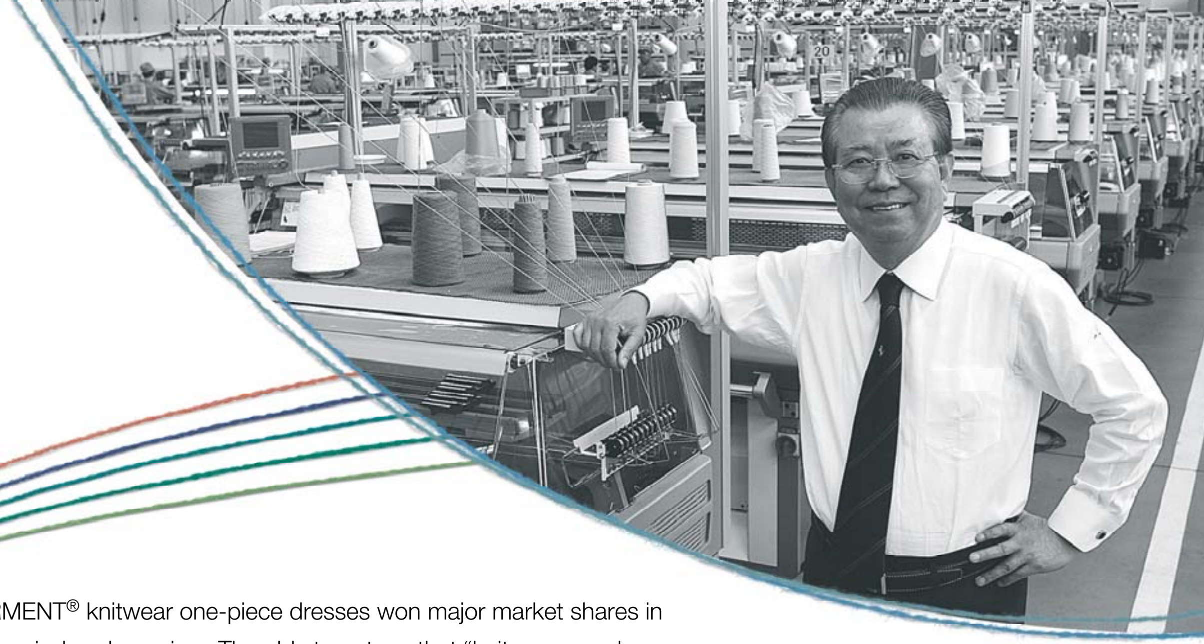
Q4 How has the sales strategy for WHOLEGARMENT® flat knitting machines been progressing?

The creative edge inherent in WHOLEGARMENT® technology, as clearly proved by the receipt in March 2007 of the Okochi Memorial Grand Production Prize, the most authoritative prize in the Japanese manufacturing industry, has been highly evaluated as an advanced production method that offers innovation to the knitwear industry in consumer markets such as Europe, the United States, and Japan.

However, sales of WHOLEGARMENT® flat knitting machines have remained negative for the previous year after the peak in the year ended March 31, 2004.

The Company made a change during the period under review so as to communicate information directly to users and provide technical support through its overseas subsidiaries in order to thoroughly redeliver a distinct edge for WHOLEGARMENT® flat knitting machines, which offer advantages to the consumer, such as wearer comfort and the ability to manufacture extra quantities of products. The Company will be exhibiting cutting-edge WHOLEGARMENT® flat knitting machine at ITMA 2007, the world's largest exhibition of textile machines to be held in Munich, Germany, in September 2007 to create new markets.

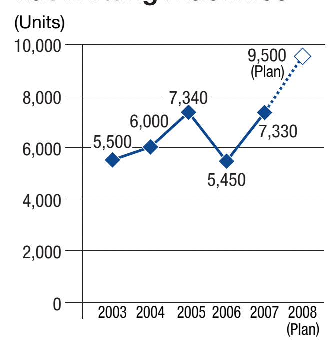
Total Design Center



WHOLEGARMENT® knitwear one-piece dresses won major market shares in Japan during the period under review. The old stereotype that "knitwear equals a sweater" has started to be replaced by a new concept of developing knitwear products using WHOLEGARMENT®.

In order to expand sales of WHOLEGARMENT® flat knitting machines in the future, it is essential to develop a Total Fashion System that materializes a consistent manufacture of products primarily through SDS-ONE®. The Company intends to disperse such system together with independently accumulated know-how throughout the world to promote widespread acceptance of WHOLEGARMENT®.

Sales volume of flat knitting machines



Q5 Please describe the earnings forecast and dividend policy for the following period (the year ending March 31, 2008).

A high level of demand is expected to continue in the Chinese and Hong Kong market, and the full-year results of consolidated subsidiaries established during the period under review will be included in the Company's reported results in the following period. Under these circumstances, the Company expects a significant increase in sales and income and projects net sales of 55,000 million yen (a 16.8% year-on-year increase), operating income of 12,000 million yen (a 55.7% year-on-year increase) and net income of 6,500 million yen (a 108.8% year-on-year increase), which are all historic high earnings forecasts.

As for dividends, the Company plans to raise the interim dividend by ¥2.50 per share based on expectations of improving business performance to pay an interim dividend of ¥22.50 per share, which is an increase of ¥5.00 per share, in total including an additional dividend of ¥2.50 per share to commemorate its 45th anniversary. As for the year-end dividend, the Company intends to pay ¥20.00 per share, thus ¥42.50 per share for the full business year.

Although continued growth is expected in the Chinese and Hong Kong market during and after the following year, more aggressive sales activities in other regions, such as Japan, Europe, and the United States, and a multi-pillar strategy of providing multiple products are considered to be critical challenges for the Group's growth in the future.

* The exchange rates for the earnings forecast are ¥115 to the U.S. dollar, and ¥150 to the Euro.
* The above forecast was provided as of May 10, 2007. Consequently, actual performance may differ from published forecasts as a result of factors such as changes in economic conditions.

At ShanghaiTex 2006 venue (July 2006)

Masahiro Shima, President

Global Market Strategy

New sales operations established in major areas worldwide

❶ North China area (Beijing and Nei Mongol)
Cashmere production centers that provide high-quality goods. Recent increase in production.

❷ East China area (Shanghai, Zhejiang Sheng and Jiangsu Sheng)
High growth due to exports to Europe and the United States and increasing domestic demand. Main facilitators are emerging companies.

❸ South China area (Hong Kong, Guangdong Sheng and Fujian Sheng)
Core production area backed by abundant labor supply. Production regions mainly focusing on exports to Europe and the United States.

* Area names are those defined and used by the Company.

in Asia

In China and Hong Kong, the world's largest knitwear production center, customer-oriented sales activities will be conducted

China, which has been experiencing rapid economic growth, suffers from a lack of a labor force and high labor costs mainly in the coastal areas. On the other hand, the Chinese knitwear industry, which has the largest production and export volume in the world, has enjoyed increased production for customers inside China in addition to production for the United States, Europe, and Japan. In order to address these market trends, there has been an accelerated shift away from the mainstream manual flat knitting machines into computerized flat knitting machines to significantly improve production efficiency; therefore, technical support and product proposals for users are now more required than ever.

The Company, in order to directly capture user needs to drive sales growth from a market-oriented perspective, has made a drastic change in starting direct sales since the Company's subsidiary Shima Seiki Win Win Ltd. took over business operations in China from a sales agent in September 2006.

Kouichi Iwakura
Managing Director
General Manager of Corporate Administration Department

Presentation on market trend in China and Hong Kong and our sales strategy

Q1 Which market do you target in the Chinese market?

In terms of geographic regions, we will focus on Shanghai and the East China area, where there is significant growing demand, and we have a plan to establish a center from which information is transmitted to strengthen our user support capabilities.

Surging participation of emerging knitwear manufacturers in the Chinese market has developed a broader customer base. We will provide a lease structure to extend sales to new customer segment and reinforce management of customer credit and accounts receivable.

Q2 What are advantages of direct sales?

We can improve technical support capabilities and expand sales by reflecting suggestions directly from users. We will also enhance our capacity, which the sales agent could not maintain, to communicate information on know-how and design to differentiate ourselves from competitors. In addition, we believe that we can contribute to the development of the entire knitwear industry by leveraging our capability to draft a sales strategy from the medium-to long-term perspectives.

Q3 How do you forecast business conditions in the following period (the year ending March 31, 2008)?

Chinese knitwear manufacturers usually activate investments in facilities for products for autumn and winter of next year after the Chinese New Year celebration in February. Judging from current market conditions, we expect continued strong demand in the following period and therefore think that the Group results will also remain strong.

Taking into account the advantages gained from shifting into direct sales coverage that will soon begin to take effect, in addition to robust market trends, we anticipate further expansion of business.

At CITME 2006 venue
(October 2006 in Beijing)

Fashion show at
ShanghaiTex 2006 (July 2006)

At ShanghaiTex 2006
venue (July 2006)

Production factory
of a Chinese knitwear
manufacturer

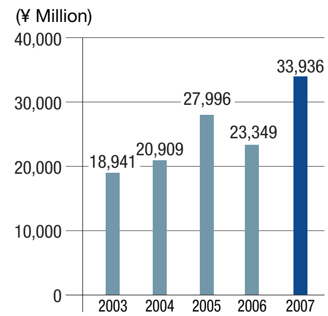
More rigid management of credit and accounts receivable, which is another reason for turning a company into a subsidiary and constitutes key issues for stable growth of the emerging Chinese market, has made the role of the new company much more important.

Introduction of new models stimulates active demand

In July, 2006, the Company released new SSG® and SIG® models of computerized flat knitting machines, which deliver both production and cost efficiency, at an exhibition of textile machines in Shanghai. These strategic new machines with high cost performance focusing primarily on the Chinese market have enjoyed buoyant sales.

Sales of flat knitting machines for the Chinese and Hong Kong market increased by approximately 70% compared to the previous year, and the new models account for a large portion of the continuously strong demand.

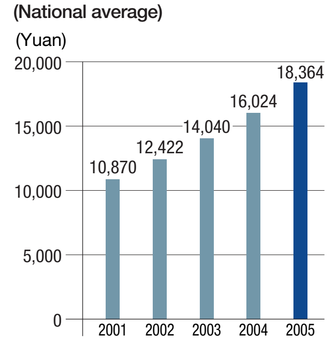
Net sales in Southeast Asia



Significant countries or areas are as follows.
China, Hong Kong, South Korea, Taiwan

Average wage of staff and workers in China

(National average)



Source: China Statistical Yearbook compiled by the National Bureau of Statistics of China

SSG®122SV computerized flat knitting machine

SIG®123SV computerized flat knitting machine

New sales operations established in major areas worldwide

New York Design Center

in U.S.A.

Turned a knitwear manufacturer into the Company's subsidiary and opened a design center in the largest consumer region. Bring WHOLEGARMENT® strategy into full implementation

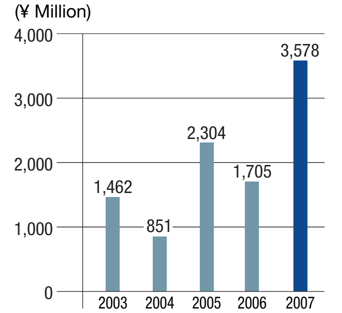
In the U.S. market, the world's largest consumer apparel region, the Company will fully implement the WHOLEGARMENT® flat knitting machine sales strategy based on the successful marketing over the years and the newly established business model.

More specifically, the Company acquired shares of a major knitwear manufacturer, Nova Knits Inc., to turn it into a subsidiary in June 2006 and opened the New York Design Center in July. The aim of these activities is to enable the Group to directly promote the manufacture of cutting-edge products in the U.S. market.

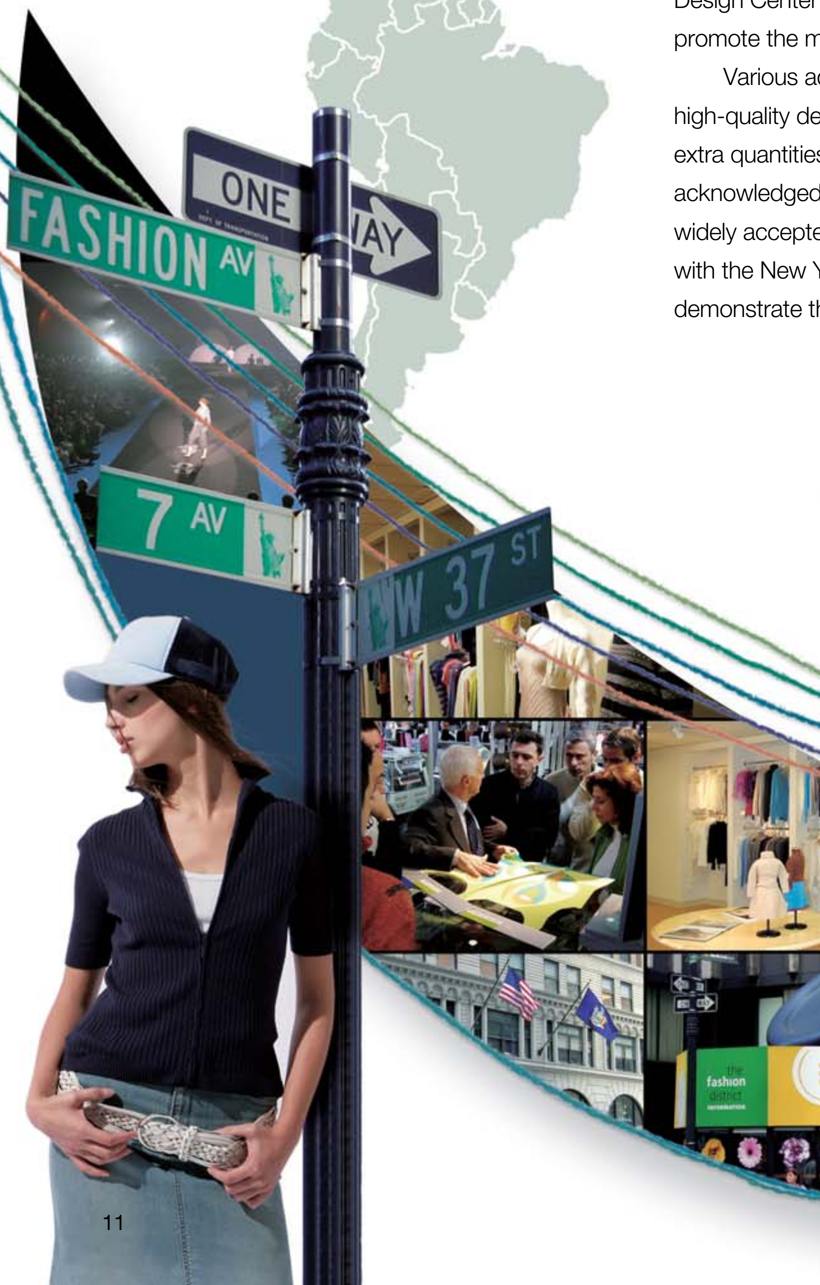
Various advantages such as wearer comfort described as "second skin", high-quality design, and the ability to provide a quick response by manufacturing extra quantities of WHOLEGARMENT® products have gradually come to be acknowledged in the United States. The Company will make WHOLEGARMENT® widely accepted to develop new markets through Nova Knits Inc., which cooperates with the New York Design Center to manufacture cutting-edge products and demonstrate the advantages of our business model.

Nova Knits Inc.

Net sales in U.S.A. and others



Significant countries or areas are as follows.
Brazil, U.S.A.



Milano Design Center

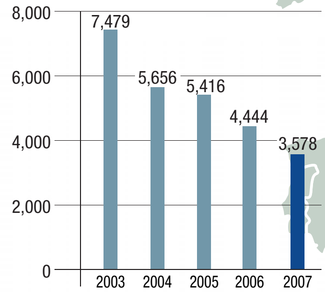
in Europe

Providing direct sales coverage in Italy, the base station from which fashion information is transmitted globally

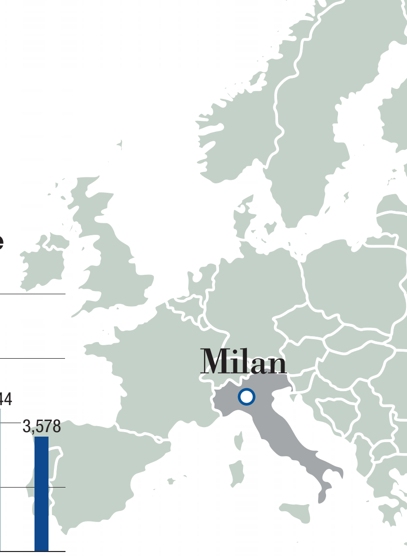
WHOLEGARMENT® flat knitting machines have been sold with emphasis on its excellent production efficiency in the European market. To accommodate the trend, the Company provided direct sales coverage since it acquired 100% of the shares of Shima - Orsi S.r.l. in December 2006 to include it as a sales subsidiary.

The Company intends to manufacture products offering higher added value integrating the SDS-ONE® design system to demonstrate the advantages inherent in WHOLEGARMENT® flat knitting machines directly to users and provide user-oriented sales and support to accelerate market development.

Net sales in Europe



Significant countries or areas are as follows.
Italy, Spain, U.K.



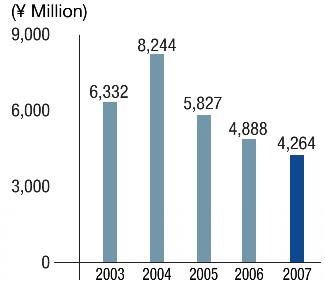
in Japan

Promote collaboration with apparel manufacturers to provide wider range of WHOLEGARMENT® products

The Japanese consumer market recorded unusual sales of several tens of thousands of pieces of one-piece knitwear dresses during the autumn and winter sales seasons of 2006. The products were designed as INDIVI items, one of the brands of a leading Japanese apparel manufacturer, World Co., Ltd., manufactured using the WHOLEGARMENT® flat knitting machine.

Sales activities, taking advantage of WHOLEGARMENT® to manufacture extra quantities of products during the season, won twenty additional orders in total. This substantial success was due to strong support by both consumers and apparel manufacturers. While consumers benefited from wearer comfort from the seamless features and the flowing silhouettes, apparel manufacturers valued the freedom from loss of sales opportunities and inventory losses.

Net sales in Japan



Design training
(Total Design Center
at the Headquarters)

WHOLEGARMENT® reestablishes manufacture of products in fashion consumer regions

Most knitwear products in the world are manufactured in massive quantities in countries with the competitive advantage of low labor costs and then exported to fashion consumer countries. However, flexible production systems, which enable the manufacturing of a wide variety of products with high-quality design and high added value in small quantities in accordance with the trend and introducing them into the market as needed, is required in consumer fashion regions. WHOLEGARMENT® satisfies such needs.

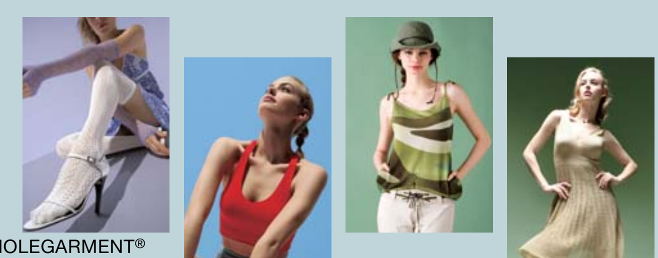
WHOLEGARMENT® flat knitting machines satisfy both consumer and manufacturer needs and have been fully adopted by major leading apparel brands and even in the field of sportswear, innerwear, children's clothing, and universal fashion in the consumer markets of Europe, the United States, and Japan. WHOLEGARMENT® has been highly evaluated as a powerful tool in reestablishing the knitwear industry in leading industrialized countries.

Advantages of WHOLEGARMENT®

Advantages for the manufacturer
- Enables quick response by manufacturing extra quantities of products
- Reduce cost as a result of drastic shortening of the production process
- Minimum yarn

Advantages for the consumer
- A soft feel and light-weight comfort
- Elasticity
- Flowing silhouette

Advantages in the revitalization of knitwear industries in consumer markets
- Production acutely responsive to consumer trends
- Creation of products with high added-value



WHOLEGARMENT® collection

Proprietary technology unsurpassed by any competitor

Unique technology of WHOLEGARMENT® has been highly evaluated in Japan

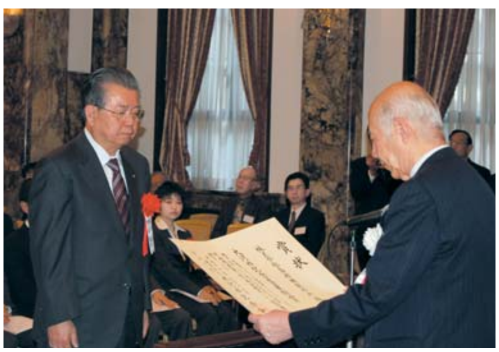
The Company received the 53rd Okochi Memorial Grand Production Prize on March 13, 2007. The prize is the most authoritative and the highest honor prize in the field of Japanese production engineering and production technology. The prize came from the high evaluation of the shift made by the Company from labor-intensive knitwear production, which requires cutting and sewing, to the knowledge-intensive manufacture of products leveraging the design system and WHOLEGARMENT® flat knitting machines, which were developed by the Company.

The WHOLEGARMENT® flat knitting machine comes from proprietary technology unsurpassed by any competitor. In order to leverage its benefits, the Company demonstrated the appeal of the WHOLEGARMENT® through overall proposals for hardware and software as well as the know-how for knitting technology and sample production.

The Company, as an apparel culture creator, will continue to develop highly unique technologies to contribute to the revitalization and growth of the global knitwear industry.

Okochi Prize

The Okochi Prize has been presented by the Okochi Memorial Foundation, which was established in commemoration of Dr. Masatoshi Okochi's achievements in the development of production engineering in Japan, since 1954. Among the presentations, the Okochi Memorial Grand Production Prize is the highest honor granted to business entities for especially distinguished achievements through excellent creative research. Prize recipient technologies in the past tell the story of the industry's historical development.

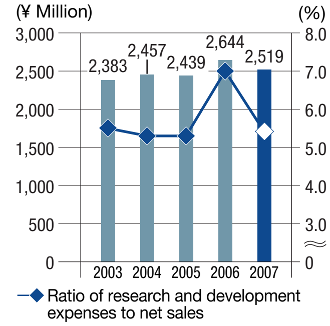


Awards ceremony on March 13, 2007

SDS-ONE® design system enables the manufacture of high-quality products

SDS-ONE® is an ALL-in-ONE design system that covers all processes from product planning through design and sample production to sales promotion. It allows for all operations necessary for the manufacture of products in the knitwear and apparel industry.

Research and development expenses



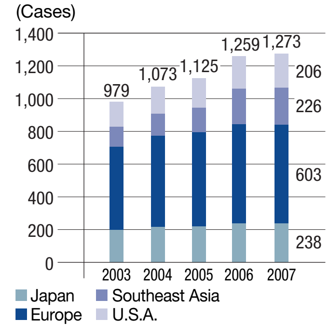
R&D and intellectual property strategies

The Company, since its foundation, has aimed for unique technological developments based upon creativity and delivered products that generate a high level of customer satisfaction by combining the advanced technology nurtured by the Company as a comprehensive mechatronics enterprise with an abundance of flexible and creative ideas.

The Company's history is also one of relentless technological development. The Company developed all the hardware and software for its products under the fundamental concept of "create it yourself if it doesn't already exist." Moreover, to ensure thorough quality control, accumulate technical know-how, and combine flexible development and production, every product, down to the individual parts, is manufactured in-house, resulting in a 75% rate of in-house parts procurement.

Since its incorporation, the Company has built its own database of related technologies, and devised a set of intellectual property strategies that fortify a technological development structure based on its business strategies in global markets. As a means of further enhancing its intellectual property strategies, the Company intends to actively apply for patents in peripheral and alternative technologies. At the same time, the Company considers it an important intellectual property strategy to protect and distinguish products produced by users who utilize Company products and know-how from competitors.

Trends in the number of patents held



The numbers for Southeast Asia and Europe consist of those of the following major countries and regions only.
Southeast Asia: China, Hong Kong, South Korea and Taiwan
Europe: Germany, U.K., France, Italy and Spain

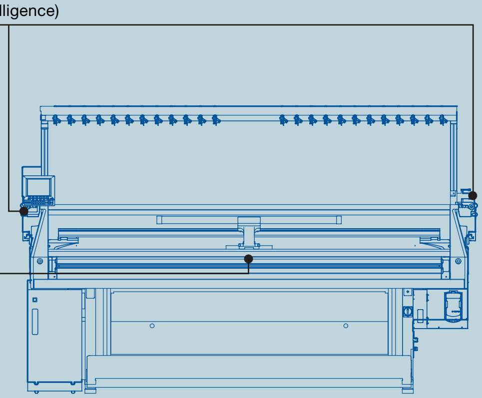
The number of patents related to WHOLEGARMENT® exceeds 1,000

Ten years have passed since the Company exhibited the world's first completely seamless computerized flat knitting machine at the ITMA exhibition in Milan, Italy, in 1995. The number of patent applications (disclosed and registered) related to WHOLEGARMENT® currently exceeds 1,000 worldwide, of which approximately 200 are Japanese patent applications. A large number of patent applications have been filed because the patents include those related to machines as well as those related to knitting technology for knitwear characterized by beauty, strength, and wearer comfort and design systems. This provides proof of the originality of WHOLEGARMENT®.

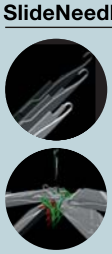
Example of machine patents

i-DSCS® (Digital Stitch Control System with Intelligence)

The system produces fabric by automatically controlling the supply of yarn while standardizing the size of the loops (stitches).
It contributes to quality improvements by preventing the instability caused by differences in elasticity of yarn or humidity.



SlideNeedle®/Four needle beds

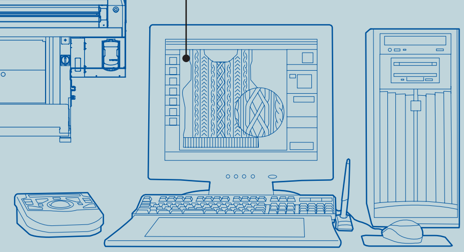


SlideNeedle® replaced the latch needle, which had been used for 150 years. The needle is indispensable for the four needle beds of the WHOLEGARMENT® flat knitting machine and can produce a wide variety of high value fabrics, which had not been conceivable before.

Example of design system patents

SDS-ONE®/Virtual sample

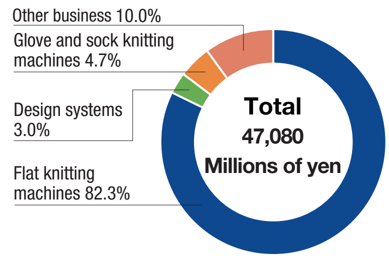
The virtual product sample provides an image on the computer screen equivalent to a real knitwear product sold in stores. It enables confirmation until the completion of the process on the computer system and contributes to a significant reduction in time and cost.



Overview and outlook on the four segments

The Group comprises four segments and recorded total sales of 47,080 million yen during the period under review. The Flat Knitting Machine segment, which is the Company's core business and whose sales account for more than 80% of the total, is engaged in the production and sales of computerized flat knitting machines and WHOLEGARMENT® flat knitting machines. The Design System segment develops and manufactures SDS-ONE® design system and peripheral equipment. The Glove and Sock Knitting Machine segment is engaged in the development and production of glove knitting machines and five-toed socks knitting machines. The Other Business segments, which have been involved in the sales of parts required for the maintenance of the Company's products, currently include sales business of knitwear products performed by Nova Knits Inc., which became the Company's subsidiary during the period under review.

Net Sales Ratio by Business Segment



Flat Knitting Machine Segment

Strong growth driven by robust demand in the Chinese and Hong Kong market

The Flat Knitting Machine segment, which was affected by the termination of textile import quotas (quota-free) in the previous fiscal period, achieved sales growth mainly due to the buoyant demand in the Chinese and Hong Kong market.

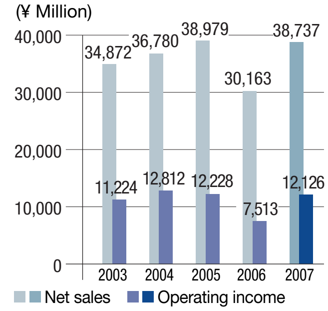
The Company demonstrated the advanced and creative edge of WHOLEGARMENT® to the knitwear and apparel industry in consumer production regions to revitalize the industry. Although knitwear manufacturing using WHOLEGARMENT® invoked a partial return to the domestic market, the still high import ratio of products prevented active capital investment. In Europe, the Company focused particular attention on the expansion of sales of WHOLEGARMENT® flat knitting machines, primarily in Italy, though without a full recovery of orders. Turkey, in the Middle East, suffered from weak capital investment and a significant decrease in sales resulting from negative effects of knitwear products made in China.

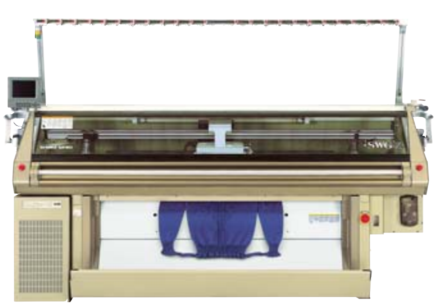
On the other hand, sales in China and Hong Kong, the largest center in mass-production markets, have grown significantly and benefited from the growing demand for computerized flat knitting machines driven by greater requirements for manufacturing process efficiency on the back of higher labor costs and the high rating to SSG® and SIG®, which was released in July 2006, given by users for their excellent production and cost efficiency.

As a result, the Flat Knitting Machine segment recorded sales of 38,737 million yen (a 28.4% year-on-year increase).

As for the following period, a high level of demand is expected to continue in the Chinese and Hong Kong market and the full-year achievement generated by direct sales coverage in major markets during the period under review is considered to contribute to the Company's reported results. Considering these factors together, the Flat Knitting Machine segment is projected to record sales of 46,000 million yen (a 18.8% year-on-year increase) in the following period.

Flat Knitting Machines





SWG-X WHOLEGARMENT® flat knitting machine

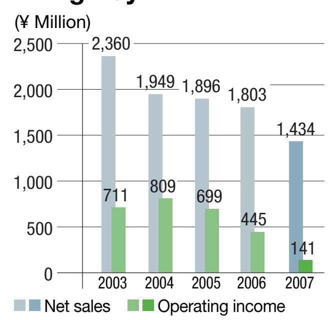
Design System Segment

Negative income growth due to weak domestic results despite a slight recovery in the overseas markets

The Design System segment was engaged in the aggressive expansion of sales of the SDS-ONE® through the enhancement of virtual sample functions and other new functions for a reduction in time and costs in the knitwear and apparel industry. Although overseas markets, primarily Italy, have stayed at a slightly higher level than those in the previous fiscal period, the weak domestic market forced sales down to 1,434 million yen (a 20.5% year-on-year decrease).

For the following period, such factors as the prospect of growth in demand for a design system amid the rollout of a new strategy for WHOLEGARMENT® flat knitting machines and the expected positive impact of ITMA 2007, the world's largest exhibition of textile machines to be held in September 2007, will generate projected sales of 1,500 million yen (a 4.6% year-on-year increase) for the Design System segment.

Design Systems



SDS-ONE® design system

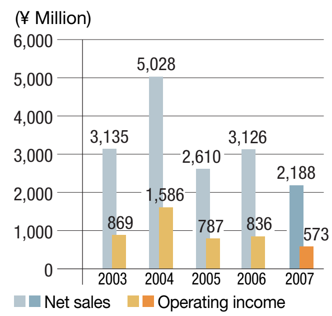
Glove and Sock Knitting Machine Segment

Declining income due to the effects of imitation machines in the core market

The Glove and Sock Knitting Machine segment recorded a massive decline in sales, despite a slight recovery in the domestic market, due to the significant sales decrease in its core Korean market adversely affected by Chinese-made imitation machines, to 2,188 million yen (a 30.0% year-on-year decrease).

As for the following period, the Glove and Sock Knitting Machine segment, despite efforts to focus on developing products for precision work and medical care leveraging fine-gauge and expansion of uses to fashion products, is projected to record sales of only 2,000 million yen (a 8.6% year-on-year decrease).

Glove and Sock Knitting Machines



NewSFG seamless glove knitting machine

SPF-W seamless sock knitting machine

Other Business Segment

Started new business; manufacturing and sales of knitwear products

Other Business segment, which currently includes sales of knitwear products by Nova Knits Inc., in addition to the sales of parts for the maintenance of each of the other segments, posted sales of 4,721 million yen (a 69.4% year-on-year increase).

The Other Business segment is projected to record sales of 5,500 million yen (a 16.5% year-on-year increase) during the following period. The Company intends to establish a knitwear product sales business in the United States as a new business model to expand sales of WHOLEGARMENT® flat knitting machines in consumer markets.

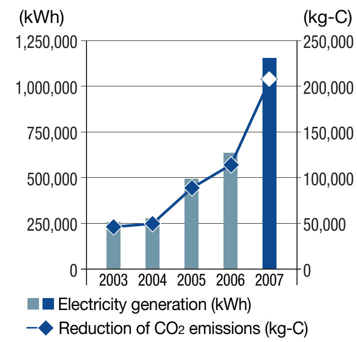
Environmentally friendly business activities and contribution to society

Accelerating environmental protection through largest capacity photovoltaic generation system in Japan

The effort to prevent global warming currently constitutes a global issue, and the Company thinks that it has an important social mission to accelerate environmental protection.
FA Building No. 2, the new factory completed in December 2005, introduced a large-capacity photovoltaic generation system that uses natural energy and installed 3,048 solar battery panels. The factory combines the use of these facilities with existing solar power facilities and generates 1,130 kW of electricity—the largest single output in Japan for a private facility.

The photovoltaic generation system produced approximately 1,150,000 kWh of electricity in fiscal year 2007 on an annual basis. This is equivalent to approximately 280,000 liters (15,000 eighteen-liter cans) of petroleum consumption. The Company incorporated global environmental protection into its Shima Seiki Group Code of Conduct, the guidelines to which all directors and employees must comply. The Company will continue to actively promote environmentally aware business activities and comply with all environment-related laws and regulations.

Photovoltaic generation capacity of the Company

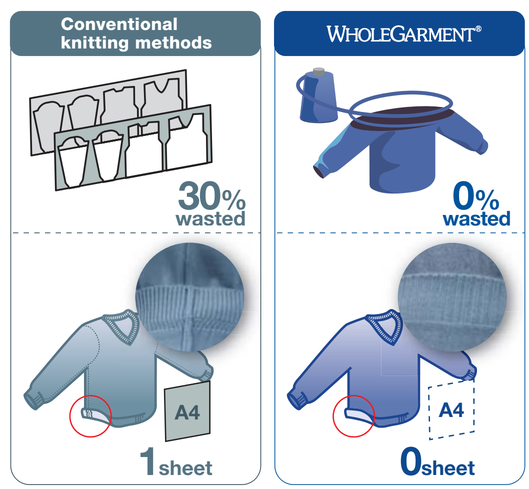


Environment-friendly WHOLEGARMENT®

The WHOLEGARMENT® flat knitting machine, which is capable of knitting an entire garment in one piece, eliminates post-processing, such as cutting and sewing. It also reduces costs and time by eliminating processes and material losses arising in the course of cutting parts.

Conventional knit products have generally involved seam allowance losses equal to 14% of the fabric (equivalent to an A4-size sheet of paper) and generated 30% material losses from cutting. The losses result in waste of more than 50%, including losses arising during the process of sample production. This means that knitting 1,000 sweaters results in the loss of material equivalent to the wool yarn collected from 48 sheep.

The WHOLEGARMENT® flat knitting machine, which generates no material loss from cutting, contributes to lowering the environmental burden by reducing the energy required to burn the materials and reducing carbonic anhydride emissions while providing resource-saving and global environment-friendly knitwear.



Conventional knitting methods cannot avoid losses from cutting and seam allowance in the cutting and sewing of parts.

Topics

Received an award as high-grade factory through its intensified greening efforts for factory

The Company received the 2006 Outstanding Green Space Environment Factory Award from the Director General of the Kinki Bureau of Economy, Trade and Industry on October 24, 2006, for the intensified greening efforts by the factory and the contributions to improving the quality of the environment in the surrounding area. The Company will further intensify its well-planned greening efforts and aim to be a company in symbiosis with local communities.

* Kinki Bureau of Economy, Trade and Industry is one of the nine regional bureaus operating as one of the Ministry of Economy, Trade and Industry's block institutions in Japan.

Greenery park on the premises of the headquarters

To be a company that constantly ensures social credibility

The Structure for Corporate Governance

The Company adopted a Board of Directors system consisting of 11 directors who demonstrate complete knowledge of operations of the Company. No outside Board member was appointed. The meeting of the Company's Board of Directors, which is convened at least once every month and whenever needed on a timely basis, enabled an accurate assessment of the status of its business operations and prompt and flexible management decisions.

The Company created supervising bodies for the execution of duties by directors by appointing corporate auditors and an accounting auditor, as well as establishing the Internal Auditing Division within the Company.

Corporate auditors independently monitor directors' execution of duties and attend board and other important meetings, inspect important documents, research the subsidiaries, and implement individual interviews of directors, which entail a proactive collection of information necessary for audits. An experienced attorney and tax accountant were appointed corporate auditors, both of whom are (part-time) outside auditors elected to fill two available auditor positions out of four, to reinforce the legal and accounting audit capabilities.

The Company appointed Ohtemae Audit Corporation as its accounting auditor. Regular accounting audits by the professional auditor ensure the effectiveness of the audit system.

Moreover, the Internal Auditing Division was established by the Company to enhance internal control. The division, through regular contact with the Corporate Auditors, reports internal audit results directly to the president and provides feedback to other divisions to quickly improve and verify business operations.

Efforts toward Compliance

The Company established the Shima Seiki Group Code of Conduct in October 2006 and declared that it would comply with all related laws and regulations and respect social codes as described in the General Rules section regarding compliance with laws and regulations and corporate ethics.

As one of the specific measures to implement internal control from the perspective of compliance, the Company set up the Committee for the Promotion of the Internal Control System headed by the president. The Company also established the Basic Policies Related to Improvement of the Internal Control System in May 2006 to ensure responsibility of management covering the entire group.

In preparation for the internal control evaluation requirement related to financial reports, which will become effective in the year ending March 31, 2009,* the Company provided documents under the advice of the accounting auditor for a pilot version during the period under review. The Company intends to continue company-wide efforts to enhance the credibility of its financial reports and improve the quality of the Company to become trusted by society.

* The system is required by the Financial Products Transaction Law of Japan. Evaluations, audits, and other oversight and internal control practices related to financial reports are also required.

Corporate Governance Organization

Board of Directors and Corporate Auditors

President

Masahiro Shima

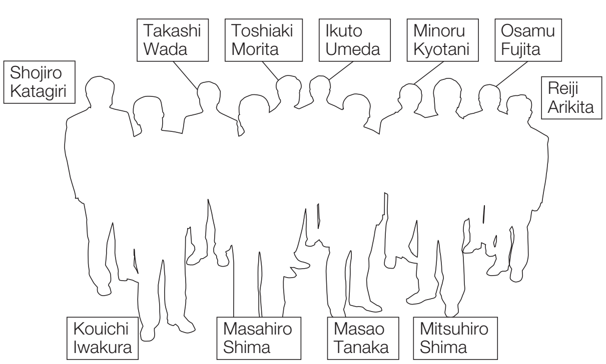
Senior Managing Director

Masao Tanaka
General Manager of Accounting Division, overseenig General Affairs Division and Internal Auditing Division

Managing Director

Kouichi Iwakura
General Manager of Corporate Administration Department, overseeing Sales Marketing Division

Mitsuhiro Shima
General Manager of Graphic System Development Division, overseeing Control System Development Division, Intellectual Property Division and Total Design Center



Director

Minoru Kyotani
General Manager of Machinery Production Technology Division

Toshiaki Morita
General Manager of Material Purchasing Division

Takashi Wada
General Manager of Manufacturing Division

Shojiro Katagiri
General Manager of Corporate Planning Division

Ikuto Umeda
General Manager of Export Division

Osamu Fujita
General Manager of General Affairs Division

Reiji Arikita
General Manager of Mechatronic Development Division

Corporate Auditor

Osamu Okawa
Standing Corporate Auditor

Toshiyuki Okidono
Standing Corporate Auditor

Yuuki Matoba
Corporate Auditor

Masatoshi Yasugi
Corporate Auditor

(As of June 28, 2007)

Financial Section

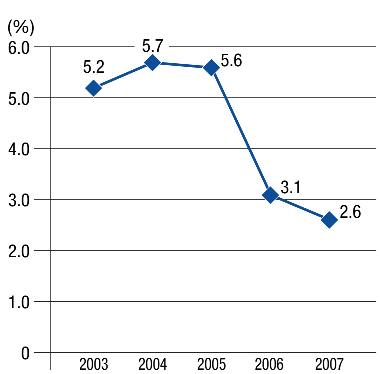
Five-Year Financial Summary

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries
Years ended March 31

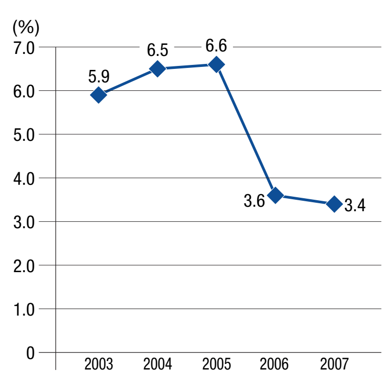
	Millions of yen					Thousands of U.S. dollars
	2007	2006	2005	2004	2003	**2007**
For the Year:						
Net sales	**¥47,080**	¥37,880	¥46,095	¥46,420	¥43,288	**$398,814**
Cost of sales	**25,014**	21,100	25,277	24,074	23,200	**211,893**
Gross profit	**22,066**	16,780	20,818	22,346	20,088	**186,921**
Selling, general and administrative expenses	**14,357**	12,757	11,560	11,374	11,241	**121,618**
Operating income	**7,709**	4,023	9,258	10,972	8,847	**65,303**
Income before income taxes and minority interests	**6,183**	5,293	9,518	9,520	8,801	**52,376**
Net income	**3,114**	3,405	5,930	5,624	4,878	**26,379**
Depreciation and amortization	**1,542**	1,026	997	1,021	1,031	**13,062**
At Year-End:						
Total assets	**¥129,161**	¥109,302	¥107,234	¥102,853	¥96,220	**$1,094,121**
Net assets	**92,810**	95,522	92,299	88,056	84,597	**786,192**
Per Share Data:	Yen					U.S. dollars
Net income	**¥86.17**	¥91.92	¥159.97	¥150.64	¥129.61	**$0.73**
Cash dividends applicable to the year	**37.50**	37.50	37.50	37.50	35.00	**0.32**
Net assets	**2,546.71**	2,599.24	2,510.71	2,391.63	2,280.85	**21.57**
Ratios:	%					
Return on assets	**2.6%**	3.1%	5.6%	5.7%	5.2%	
Return on equity	**3.4%**	3.6%	6.6%	6.5%	5.9%	
Equity ratio	**69.2%**	87.2%	85.9%	85.5%	87.7%	

Notes: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥118.05=US$1, the exchange rate on March 31, 2007.
Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries have adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. The figures in prior years have been restated to reflect this change.

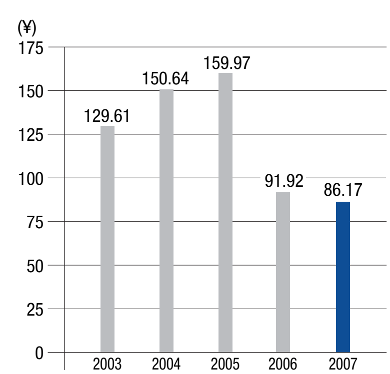
ROA



ROE



Net income per share



Overview

With respect to the global economy during the current consolidated fiscal year, the U.S. economy remained generally robust, although with a slight slowdown, and the EU economy saw sustained growth led by domestic demand. Economic growth in Asia, especially China, remained high due to buoyant exports and capital investments. Japan also performed well, reflecting such factors as improved corporate earnings.

Under these economic circumstances, the Company established the sales subsidiary, Shima Seiki Win Win Ltd., for the Chinese and Hong Kong market, the world's largest knitwear production center, and initiated direct sales operations through the subsidiary, which took over business operations from the former sales agent in September 2006. In the United States, the world's largest consumer region, the Company acquired shares of Nova Knits Inc., a major knitwear manufacturer, in June 2006 and opened the New York Design Center in July 2006. In Italy, the Company acquired shares of Shima - Orsi S.r.l. in December 2006 to make it a sales subsidiary. Through these activities, the Company promoted strategic business reform in important markets worldwide.

As for business results for the current consolidated fiscal year, consolidated net sales hit a historic high of 47,080 million yen (a 24.3% year-on-year increase), despite low capital investments in Europe and Turkey, as a result of substantial growth in demand for computerized flat knitting machines in the Chinese and Hong Kong market from the latter half of the fiscal year. On the earnings side, despite sizeable increases in consolidated operating income to 7,709 million yen (a 91.6% year-on-year increase), the Company reported consolidated net income of 3,114 million yen (a 8.5% year-on-year decrease), mainly because of recorded extraordinary losses associated with business restructuring in overseas markets.

The Company believes that the continued success and growth of the Company on a consolidated basis and business growth through development of new technologies will contribute to maximize corporate value and return profits to all stakeholders. In order to achieve this goal, the Company set the management benchmark of achieving net earnings per share (EPS) of 200 yen or more. However, the Company was only able to achieve consolidated EPS of 86.17 yen (diluted EPS of 83.51 yen) due primarily to the decline in consolidate net income, which more than offset an increase in consolidated ordinary income resulting from such factors as the effects of the weak yen during the period under review.

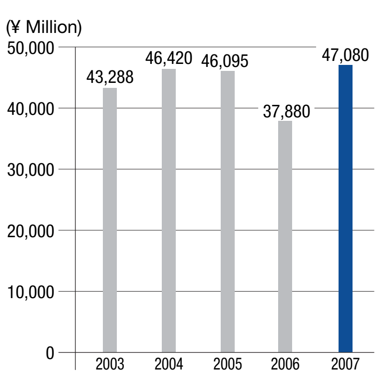
Net Sales

Consolidated net sales during the period hit a historic high of 47,080 million yen (a 24.3% year-on-year increase).

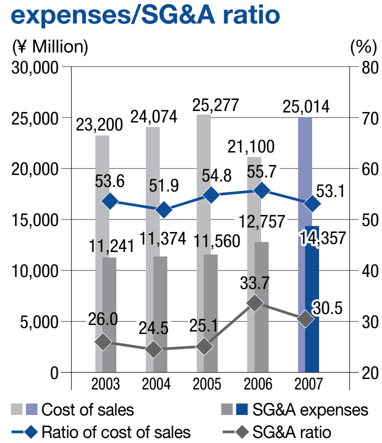
Overseas net sales for the current period, which accounted for 90.9% (year-on-year percentage point increase of 3.8%) of the total, increased by 29.8% to 42,816 million yen. This increase primarily came from substantial order growth supported by growing interest in capital investment in computerized flat knitting machines in the Chinese and Hong Kong market.

Domestic net sales for the current period decreased by 12.8% compared to previous year to 4,264 million yen. Despite a partial recovery of knitwear production in the domestic market, which followed efforts to promote market revitalization

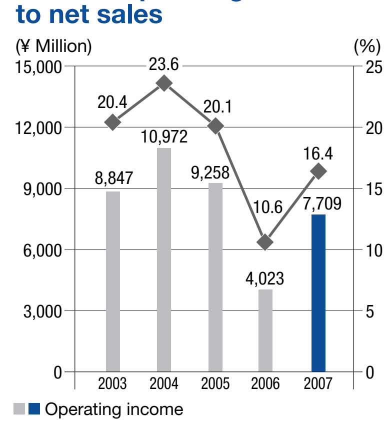
Net sales



Cost of sales/Ratio of cost of sales to net sales/SG&A expenses/SG&A ratio



Operating income/Ratio of operating income to net sales



leveraging WHOLEGARMENT® flat knitting machine, the still high import ratio of Chinese-made products, which prevented capital investment, pushed sales down. (Please refer to pages 15 to 16 for Segment Information.)

Cost of sales and SG&A expenses

Cost of sales during this period increased by 18.5% compared to the previous year to 25,014 million yen. The cost of sales improved by 2.6 points compared to the previous year to 53.1% due to sales growth, which more than offset the cost of sales. This was due mainly to growing sales of new models with a high gross rate generated from efforts to reduce costs and the cost reduction effect through increased production.

SG&A expenses rose by 12.5% compared to the previous year to 14,357 million yen, resulting in the 3.2-point improvement in the ratio of SG&A expenses to net sales to 30.5%. This was primarily attributable to the increase in net sales, which more than offset a rise in total SG&A expenses, resulting in an improvement in the ratio of SG&A expenses to net sales.

Operating income

Operating income rose by 91.6% compared to the previous year to 7,709 million yen, primarily due to the 24.3% increase in net sales, the 2.6-point improvement in the cost of sales, and the 3.2-point improvement in the ratio of SG&A expenses to net sales.

As far as operating income by segment is concerned, the Flat Knitting Machine segment recorded a net increase of 4,613 million yen (a 61.4% year-on-year increase), the Design System segment recorded a net decrease of 304 million yen, the Glove and Sock Knitting Machine segment recorded a net decrease of 263 million yen, and other segments had a net decrease of 216 million yen.

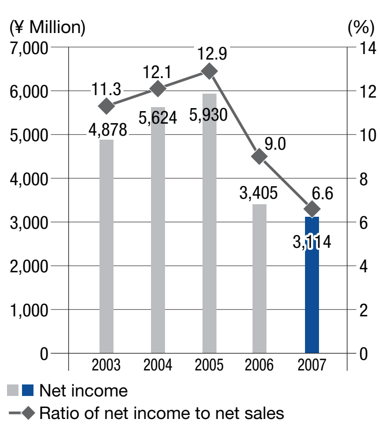
Other income and expenses

Other expenses exceeded other income by 1,526 million yen, resulting in a decrease in income of 2,796 million yen compared the previous period. Decreases were attributable to loss on support to a customer of 3,246 million yen generated from extraordinary losses recorded as a result of business restructuring in overseas markets and the 1,037 million yen in bad debt expenses, while increases were due mainly to a gain of 1,550 million yen on the reversal of the allowance for doubtful accounts.

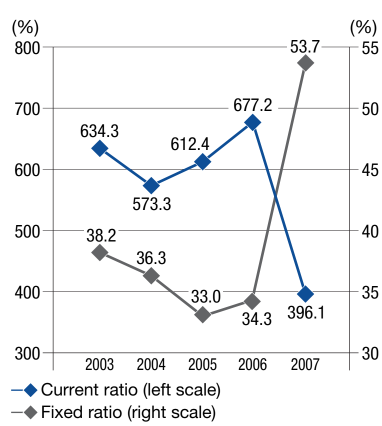
Net income

Consolidated income before income taxes and minority interests for the period under review increased by 16.8% to 6,183 million yen. Corporate income, residential and enterprise taxes totaled 3,381 million yen, representing an increase of 1,179 million yen (a 53.5% year-on-year increase). Corporate income tax adjustments for the period under review were minus 615 million yen, representing a 312 million yen decrease from the minus 303 million yen of the previous year. As a result, the Company's tax burden after application of tax effect accounting increased by 867 million yen to 2,766 million yen. This made the Company's actual effective tax rate after application of tax effect accounting, 44.7%, which exceeds the effective statutory tax

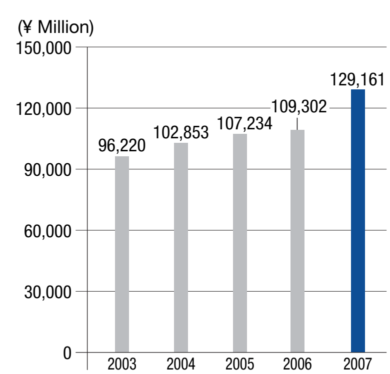
Net income/ Ratio of net income to net sales



Current ratio/Fixed ratio



Total assets



rate of 40.4%. The difference between the rate for Company actual effective tax rate and the effective statutory tax rate is attributable mainly to losses recorded as a result of business restructuring in overseas markets. Minority interests resulted in 303 million yen profit, which is an increase of 314 million yen compared to the previous year.

As a result, consolidated net income for the current year amounted to 3,114 million yen (an 8.5% year-on-year decrease).

Liquidity and capital resources

Cash and cash equivalents at the end of the period under review increased by 6,844 million yen compared to the previous year to 15,954 million yen (a 75.1% year-on-year increase). This increase was due mainly to the fact that cash flows from operating and financing activities provided net cash inflow and that cash flows from investing activities recorded net cash outflow.

Cash flows from operating activities generated a net inflow of 10,691 million yen (a 124.9% year-on-year increase) mainly attributable to strong performance.

Cash flows from investing activities recorded a net cash outflow of 16,223 million yen (a 361.8% year-on-year increase). This was due primarily to 8,584 million yen in payments for acquisition of business from a sales agent in Hong Kong and the 5,128 million yen purchases of investments in securities (a 3,296 million yen increase year on year).

Cash flows from financing activities generated a net cash inflow of 12,226 million yen (a 13,612 million yen increase year on year). The increases in cash inflow were mainly attributable to proceeds from issuing bonds with a total value of 10,027 million yen, proceeds of 3,000 million yen from long-term loans, and proceeds of 3,022 million yen from issuing shares for minority shareholders. Decreases in cash inflow were primarily due to purchases of treasury stock up to 4,309 million yen and the payment of 1,374 million yen in cash dividends.

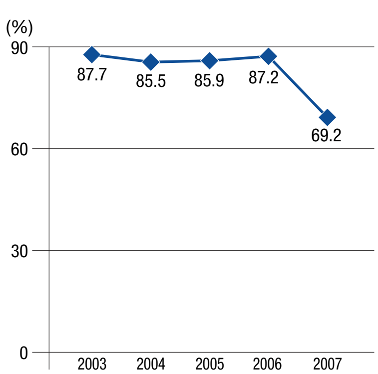
Assets, liabilities and net assets

Consolidated total assets at the end of the March 2007 rose by 19,859 million yen compared to the previous year to 129,161 million yen.

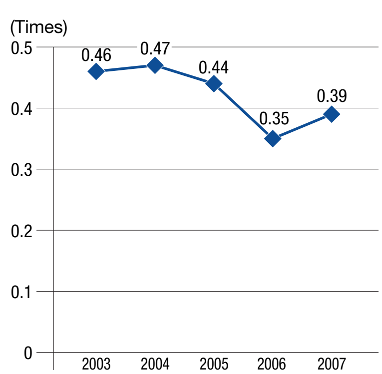
In terms of short-term assets and liabilities, current assets increased by 4,667 million yen to 81,240 million yen, which represents a 6.1% increase from the previous year. Major reasons for the increase include the increase of 6,844 million yen in cash and cash equivalents, the 990 million yen increase in short-term investments, and the 4,067 million yen increase in inventories. The decrease mainly came from the decrease of 9,918 million yen in trade accounts and notes receivable. Current liabilities, on the other hand, increased by 9,203 million yen to 20,510 million yen, an increase of 81.4% compared to the previous year. The main reasons for this increase were the 3,250 million yen increase in the trade accounts and notes payable, the 2,046 million yen increase in short-term loans, and the 1,359 million yen increase in accrued income taxes. As a result, the current ratio for the current consolidated fiscal year was 281.1 percentage points lower than the previous year's ratio to achieve 396.1%, which is still well above the 200% said to be needed to ensure soundness.

As far as long-term assets and liabilities are concerned, in the assets section, property, plant, and equipment increased by

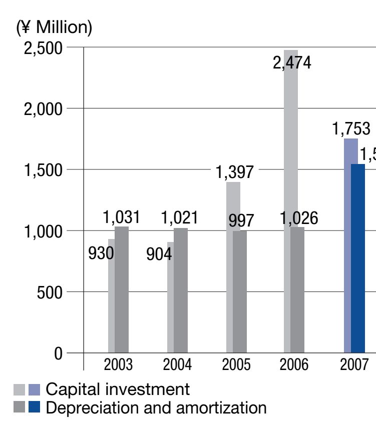
Equity ratio



Total assets turnover



Capital investment/ Depreciation and amortization



2,050 million yen compared to the previous year to 21,500 million yen (a 10.5% year-on-year increase) and investments and other assets increased by 13,142 million yen compared to the previous year to 26,421 million yen (a 99.0% year-on-year increase). These increases were due mainly to the fact that 10,768 million yen of goodwill resulting from the business transfers from a sales agent in Hong Kong and the acquisition of shares of an Italian sales agent to turn it into a subsidiary, and the 3,848 million yen increase in investments in securities to 9,579 million yen. Long-term liabilities increased by 13,368 million yen compared to the previous year to 15,841 million yen (a 540.7% year-on-year increase). The increase was primarily due to proceeds of 10,046 million yen from issue of bonds with stock acquisition rights and an increase of 3,071 million yen in long-term loans.

Net assets decreased by 2,712 million yen from the end of the previous fiscal year to 92,810 million yen (a 2.8% year-on-year decrease). A factor making a positive contribution to net assets was the 3,114 million yen in net income, while negative factors include payments of 4,309 million yen for purchases of treasury stock and 1,376 million yen in cash dividends. As a result, the equity ratio declined by 18.0 points to 69.2% compared to the previous year, and the fixed ratio, which represents a proportion of shareholder’s equity to sources of capital in fixed assets, rose by 19.4 points to 53.7% due mainly to the increase in goodwill.

The ROA (return on assets) dropped from 3.1% to 2.6% as a result of the decrease in consolidated net income (a 8.5% year-on-year decrease), while the ROE (return on equity) also fell from 3.6% to 3.4%.

About issuance of Convertible Bonds

Masao Tanaka
Senior Managing Director
General Manager of Accounting Division

The Company issued convertible bonds with stock acquisition rights having a total value of 10 billion yen in November 2006.

The purpose of the funding activity is to develop strategic business innovation that facilitates the shift from the traditional agent sales to direct sales operations in order to accelerate further growth of the Company in overseas markets. More specifically, funds have been used for business transfers from the former sales agent to the Company’s new subsidiary, which was established in the Chinese and Hong Kong market, acquisition of an agent in Italy to turn it into a sales subsidiary, and as working capital to increase production.

Upon issuing the bonds with stock acquisition rights, the Company has chosen yen-denominated Alpine CB taking into account the current economic conditions in Japan where interest rates have been picking up and funding costs as well as alternative funding methods. The bonds with a maturity period of four years (maturity date of November 26, 2010) and convertible to stock at a conversion price of 3,060 yen have been sold primarily to European institutional investors.

The exercise of convertible rights, which usually results in an increase in outstanding shares by assuming dilutive potential shares, may dilute earnings per share. In order to address the situation, the Company will improve performance to contain the dilution by limiting the increase in the number of shares leveraging treasury stock currently owned by the Company and through implementation of the global strategy stated above in order to satisfy the expectations of existing shareholders.

Business Risks and Uncertainties

The major items that the Group recognizes as possible risk factors in its operations, and that may affect the management performance and financial position of the Group are as follows:

(1) Risks associated with fluctuations in currency exchange rates

Since the Group sells products worldwide, some transactions are conducted in denominations other than yen. Although the Group employs forward exchange contracts and other hedges to minimize foreign exchange risks, it is possible that sales activities may not be conducted as planned as a result of declining price competitiveness due to the rising value of the yen. Since such situations could easily occur, sharp fluctuations in exchange rates could affect the performance and financial position of the Group.

(2) Risks associated with credit and accounts receivable recovery

The Group currently conducts sales, which have been conducted through indirect sales by overseas agents, through direct sales in China, Hong Kong and the European market (which represent major markets in the Group's global sales strategy). This enables the Group to implement comprehensive global sales and marketing strategies by properly managing customer credit to maintain a balance between receivables recovery risks and sales. As the role of the precise handling of credit in consolidated business operations gains even greater significance, performance, changes in credit standing and country risks of each customer could affect the performance and financial position of the Group.

(3) Risks of dependency on particular overseas markets

Export sales account for more than 90% of the Group's total sales, with sales to China and Hong Kong accounting for approximately 70% of export sales. Consequently, economic and political changes, including monetary policies, tariffs and trade friction with other regions, could affect the performance and financial position of the Group.

(4) Risks associated with social and institutional changes in business areas

The Group's deployment of business encompasses not only Japan but spans the entire world. Therefore, the areas where the Group conducts business pose the following inherent risks that could affect the performance and financial position of the Group.

a) Stagnant demand resulting from deteriorating economic conditions
b) Unforeseen changes in laws and regulations
c) Social turmoil due to terrorism, war, political upheaval, deteriorating civil order, and other causes
d) Natural disasters including earthquakes

(5) Risks associated with changes in consumer apparel spending and unseasonable weather

The Group's products are sold primarily to apparel and knitwear manufacturers in Japan and overseas. Moreover, department and discount store sales tend to be influenced by individual apparel preferences and fashion trends. Unseasonable weather events such as heat waves and warm winters, coupled with damage caused by strong winds and flooding, constitute another major factor that could influence market trends in the apparel industry, and thus affect the performance and financial position of the Group.

(6) Risks associated with the protection of intellectual property rights

In some countries and regions, it is virtually impossible (or possible only to a limited extent) to completely protect the Group's proprietary technology and know-how in terms of its intellectual property rights due to a lack of awareness concerning legal compliance. Consequently, the Group may not be able to effectively prevent a third party from illegally using the Group's intellectual property rights and producing imitation products, and the accompanying deterioration in sales and price competition could affect the performance and financial position of the Group.

(7) Risks associated with overconcentration of production on a particular production site

The Group promotes efficiency by concentrating its product production in Wakayama prefecture to allow all operations, from development to manufacturing, to be integrated into one process. Therefore, the occurrence of natural disasters such as a large earthquake in and around Wakayama prefecture, which may involve a long halt of the production line, could affect the performance and financial position of the Group.

Consolidated Balance Sheets

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries
March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥15,954**	¥9,110	**$135,146**
Time deposits	**258**	866	**2,186**
Short-term investments (Note 4)	**1,555**	565	**13,172**
Trade accounts and notes receivable:			
Unconsolidated subsidiaries	**137**	137	**1,161**
Other	**43,570**	53,488	**369,081**
Inventories (Note 5)	**16,200**	12,133	**137,230**
Deferred tax assets (Note 12)	**2,488**	1,904	**21,076**
Prepaid expenses and other current assets	**3,404**	1,279	**28,835**
Less: allowance for doubtful accounts	**(2,326)**	(2,909)	**(19,704)**
Total current assets	**81,240**	76,573	**688,183**
Investments and other assets:			
Investments in unconsolidated subsidiaries and an affiliate	**1,675**	1,729	**14,189**
Investments in securities (Note 4)	**9,579**	5,731	**81,144**
Long-term loans receivable	**—**	658	**—**
Deferred tax assets (Note 12)	**1,232**	797	**10,436**
Deferred tax assets for land revaluation (Note 6)	**25**	3,050	**212**
Goodwill	**10,768**	—	**91,216**
Other	**4,241**	2,456	**35,925**
Less: allowance for doubtful accounts	**(1,099)**	(1,142)	**(9,310)**
Total investments and other assets	**26,421**	13,279	**223,812**
Property, plant and equipment:			
Land	**10,669**	10,645	**90,377**
Buildings and structures	**20,857**	20,523	**176,679**
Machinery and equipment	**6,648**	3,698	**56,315**
Tools, furniture and fixtures	**6,127**	5,582	**51,902**
Construction in progress	**55**	122	**466**
	44,356	40,570	**375,739**
Less: accumulated depreciation	**(22,856)**	(21,120)	**(193,613)**
Property, plant and equipment, net	**21,500**	19,450	**182,126**
Total assets	**¥129,161**	¥109,302	**$1,094,121**

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans (Note 7)	**¥4,561**	¥2,515	**$38,636**
Trade accounts and notes payable	**7,481**	4,231	**63,371**
Accrued expenses	**1,533**	1,072	**12,986**
Accrued income taxes	**2,384**	1,025	**20,195**
Other current liabilities	**4,551**	2,464	**38,552**
Total current liabilities	**20,510**	11,307	**173,740**
Long-term liabilities:			
Long-term debt, less current portion (Note 7)	**13,117**	—	**111,114**
Allowance for retirement benefits (Note 8)	**1,712**	1,548	**14,502**
Allowance for directors' and statutory auditors' retirement benefits	**1,012**	925	**8,573**
Total long-term liabilities	**15,841**	2,473	**134,189**
Contingent liabilities (Note 9)			
Net assets (Notes 11 and 17)**:**			
Common stock:			
Authorized— 142,000,000 shares			
Issued— 37,600,000 shares	**14,860**	14,860	**125,879**
Capital surplus	**21,725**	21,725	**184,032**
Retained earnings	**66,713**	65,009	**565,125**
Treasury stock, at cost (2,529,153 shares in 2007 and 936,623 shares in 2006)	**(6,996)**	(2,688)	**(59,263)**
Net unrealized holding gain on securities	**270**	913	**2,287**
Land revaluation difference (Note 6)	**(7,518)**	(4,493)	**(63,685)**
Foreign currency translation adjustments	**262**	5	**2,220**
Minority interests	**3,494**	191	**29,597**
Total net assets	**92,810**	95,522	**786,192**
Total liabilities and net assets	**¥129,161**	¥109,302	**$1,094,121**

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Net sales	**¥47,080**	¥37,880	**$398,814**
Cost of sales	**25,014**	21,100	**211,893**
Gross profit	**22,066**	16,780	**186,921**
Selling, general and administrative expenses (Note 13)	**14,357**	12,757	**121,618**
Operating income	**7,709**	4,023	**65,303**
Other income (expenses):			
Interest and dividend income	**588**	460	**4,981**
Interest expense	**(77)**	(32)	**(652)**
Other, net	**(2,037)**	842	**(17,256)**
Income before income taxes and minority interests	**6,183**	5,293	**52,376**
Income taxes (Note 12)**:**			
Current	**3,381**	2,202	**28,640**
Deferred	**(615)**	(303)	**(5,210)**
	2,766	1,899	**23,430**
Income before minority interests	**3,417**	3,394	**28,946**
Minority interests in losses (gain) of consolidated subsidiaries	**(303)**	11	**(2,567)**
Net income	**¥3,114**	¥3,405	**$26,379**

	Yen		U.S. dollars
Per share:			
Net income	**¥86.17**	¥91.92	**$0.73**
Diluted net income	**83.51**	—	**0.71**
Cash dividends applicable to the year	**37.50**	37.50	**0.32**

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Thousands	Millions of yen								
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock (at cost)	Net unrealized holding gain (loss) on securities	Land revaluation difference	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at April 1 , 2005	37,600	¥14,860	¥21,725	¥63,381	¥(2,681)	¥155	¥(5,135)	¥(190)	—	¥92,115
Net income	—	—	—	3,405	—	—	—	—	—	3,405
Addition of a consolidated subsidiary	—	—	—	300	—	—	—	—	—	300
Cash dividends	—	—	—	(1,375)	—	—	—	—	—	(1,375)
Bonuses to directors and statutory auditors	—	—	—	(60)	—	—	—	—	—	(60)
Land revaluation difference	—	—	—	(642)	—	—	642	—	—	0
Net unrealized holding gain on securities	—	—	—	—	—	758	—	—	—	758
Foreign currency translation adjustments	—	—	—	—	—	—	—	195	—	195
Treasury stock	—	—	0	—	(7)	—	—	—	—	(7)
Balance at March 31 , 2006	37,600	14,860	21,725	65,009	(2,688)	913	(4,493)	5	—	95,331
Reclassified balance as of March 31, 2006	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**191**	**191**
Net income	**—**	**—**	**—**	**3,114**	**—**	**—**	**—**	**—**	**—**	**3,114**
Cash dividends	**—**	**—**	**—**	**(1,376)**	**—**	**—**	**—**	**—**	**—**	**(1,376)**
Bonuses to directors and statutory auditors	**—**	**—**	**—**	**(34)**	**—**	**—**	**—**	**—**	**—**	**(34)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(4,309)**	**—**	**—**	**—**	**—**	**(4,309)**
Retirement of treasury stock	**—**	**—**	**0**	**—**	**1**	**—**	**—**	**—**	**—**	**1**
Other changes, net	**—**	**—**	**—**	**—**	**—**	**(643)**	**(3,025)**	**257**	**3,303**	**(108)**
Balance at March 31, 2007	**37,600**	**¥14,860**	**¥21,725**	**¥66,713**	**¥(6,996)**	**¥270**	**¥(7,518)**	**¥262**	**¥3,494**	**¥92,810**

	Thousands of U.S. dollars								
	Common stock	Capital surplus	Retained earnings	Treasury stock (at cost)	Net unrealized holding gain (loss) on securities	Land revaluation difference	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31 , 2006	$125,879	$184,032	$550,690	$(22,770)	$7,734	$(38,060)	$42	—	$807,547
Reclassified balance as of March 31, 2006	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**$1,618**	**1,618**
Net income	**—**	**—**	**26,379**	**—**	**—**	**—**	**—**	**—**	**26,379**
Cash dividends	**—**	**—**	**(11,656)**	**—**	**—**	**—**	**—**	**—**	**(11,656)**
Bonuses to directors and statutory auditors	**—**	**—**	**(288)**	**—**	**—**	**—**	**—**	**—**	**(288)**
Purchases of treasury stock	**—**	**—**	**—**	**(36,501)**	**—**	**—**	**—**	**—**	**(36,501)**
Retirement of treasury stock	**—**	**0**	**—**	**8**	**—**	**—**	**—**	**—**	**8**
Other changes, net	**—**	**—**	**—**	**—**	**(5,447)**	**(25,625)**	**2,178**	**27,979**	**(915)**
Balance at March 31 , 2007	**$125,879**	**$184,032**	**$565,125**	**$(59,263)**	**$2,287**	**$(63,685)**	**$2,220**	**$29,597**	**$786,192**

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥6,183**	¥5,293	**$52,376**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**1,542**	1,026	**13,062**
Amortization of goodwill	**429**	—	**3,634**
Increase in allowance for doubtful accounts	**1,271**	796	**10,767**
Increase in allowance for losses on guarantees	**94**	542	**796**
Increase (decrease) in allowance for retirement benefits	**(180)**	48	**(1,525)**
Increase in allowance for directors' and statutory auditors' retirement benefits	**87**	39	**737**
Interest and dividend income	**(588)**	(460)	**(4,981)**
Interest expense	**77**	32	**652**
Loss (gain) on sales and disposal of property, plant and equipment, net	**(3)**	41	**(25)**
Bad debt expense	**1,037**	—	**8,784**
Loss on support to a customer	**3,246**	—	**27,497**
Reversal of allowance for doubtful accounts	**(1,550)**	—	**(13,130)**
Decrease (increase) in trade receivables	**(1,502)**	2,066	**(12,723)**
Decrease (increase) in inventories	**76**	(1,153)	**644**
Decrease in trade payables	**(183)**	(1,195)	**(1,550)**
Other	**2,255**	(132)	**19,102**
Subtotal	**12,291**	6,943	**104,117**
Interest and dividend income received	**532**	470	**4,507**
Interest expense paid	**(73)**	(32)	**(618)**
Income taxes paid	**(2,059)**	(2,627)	**(17,443)**
Net cash provided by operating activities	**10,691**	4,754	**90,563**
Cash flows from investing activities:			
Decrease (increase) in time deposits, net	**(891)**	401	**(7,548)**
Purchases of short-term investments	**(7,943)**	(2,500)	**(67,285)**
Proceeds from sales of short-term investments	**7,004**	2,220	**59,331**
Purchases of property, plant and equipment	**(819)**	(2,495)	**(6,938)**
Proceeds from sales of property, plant and equipment	**166**	129	**1,406**
Purchases of investments in securities	**(5,128)**	(1,832)	**(43,439)**
Proceeds from sales of investments in securities	**249**	1,548	**2,109**
Proceeds due to a newly consolidated subsidiary	**438**	—	**3,710**
Payments for acquisition of business	**(8,584)**	—	**(72,715)**
Extension in loans receivable	**(762)**	(791)	**(6,455)**
Collection in loans receivable	**3**	10	**25**
Other	**44**	(203)	**374**
Net cash used in investing activities	**(16,223)**	(3,513)	**(137,425)**
Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	**1,866**	(5)	**15,807**
Proceeds from long-term loans	**3,000**	—	**25,413**
Repayment of long-term loans	**(7)**	—	**(59)**
Proceeds from issuing bond	**10,027**	—	**84,939**
Proceeds from issuing shares for minority shareholders	**3,022**	—	**25,598**
Purchases of treasury stock	**(4,309)**	(9)	**(36,501)**
Proceeds from sales of treasury stock	**1**	2	**8**
Cash dividends paid	**(1,374)**	(1,374)	**(11,639)**
Net cash used in financing activities	**12,226**	(1,386)	**103,566**
Effect of exchange rate changes on cash and cash equivalents	**150**	160	**1,271**
Net increase in cash and cash equivalents	**6,844**	15	**57,975**
Cash and cash equivalents at beginning of year	**9,110**	8,998	**77,171**
Increase in cash and cash equivalents due to a newly consolidated subsidiary	**—**	97	**—**
Cash and cash equivalents at end of year	**¥15,954**	¥9,110	**$135,146**

See the accompanying notes to the consolidated financial statements.

1. Basis of presenting consolidated financial statements

Shima Seiki Mfg., Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Corporation Law of Japan and the Securities and Exchange Law of Japan, and in conformity with accounting principles generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

The Company's foreign subsidiaries maintain their accounts and records in conformity with generally accepted accounting principles and practices prevailing in their respective countries of domicile.

The accompanying consolidated financial statements are prepared based on the consolidated financial statements of the Company and its significant subsidiaries (the "Group"), which were filed with the Director of Kanto Local Finance Bureau as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside of Japan.

Effective the year ended March 31, 2007, the Group has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March, 31, 2007, the Group is required to prepare consolidated statements of changes in net assets. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and consolidated statement of changes in net assets for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

Through March 31, 2006, the Group voluntarily prepared the statement of shareholders' equity for the convenience of readers outside Japan.

Certain amounts in the consolidated balance sheet as of March 31, 2006 have been reclassified to conform to the 2007 presentation.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers, using the exchange rate prevailing on March 31, 2007, which was ¥118.05 to US$1. These convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany balances and transactions are eliminated.

Unconsolidated subsidiaries, whose combined assets, net sales, net income and retained earnings in aggregate are not significant in relation to those of the consolidation with the Group.

The difference between the cost of investments in subsidiaries and equity in subsidiaries' net assets at dates of acquisition is amortized over 20 years.

Investments in unconsolidated subsidiaries are stated at cost, since those companies' combined net income and retained earnings in aggregate are not significant in relation to those of consolidation with the Group.

(b) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rate of exchange in effect at the balance sheet date, except for those hedged by forward foreign exchange contracts which are translated at the contracted rates. Resulting translation gains or losses are charged to income in the year in which they are incurred, except for those arising from forward foreign exchange contracts pertaining to monetary assets, which are deferred and amortized over the periods of the respective contracts. Revenue and expenses are translated at the rates of exchange prevailing when transactions are recorded.

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the exchange rates in effect at the respective balance sheet dates. The components of net assets are translated at historical rates. Revenue and expenses accounts of foreign subsidiaries are translated at the exchange rates in effect at the respective balance sheet dates.

Translation adjustments resulting from translation of foreign currency financial statements are reported as "Foreign currency translation adjustments" in a separate component of net assets.

(c) Cash and cash equivalents

Cash and cash equivalents are comprised of cash in hands, deposits held at call with banks, net of overdrafts and all highly liquid investments with maturities within three months.

(d) Short-term investments and investments in securities

Held-to-maturity securities are either amortized or accumulated to face value. Other securities with quoted market prices are carried at market value. The difference between the acquisition costs and the carrying value of other securities, including unrealized gains and losses, is recognized as a component of net assets and is reflected as "Net unrealized holding gain on securities." The cost of other securities sold is computed by the moving average method. Other securities without quoted market prices are stated at cost based on the average method.

(e) Inventories

Inventories are stated at the lower of cost or market. The cost of finished goods, work in process and raw materials is determined principally by the moving-average method. The cost of purchased goods held by foreign consolidated subsidiaries is determined by the specific method. The cost of supplies is determined by the first-in first-out method.

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation of the Company and domestic consolidated subsidiaries are computed principally by the declining-balance method based on the estimated useful lives of assets, except that the straight-line method is applied to buildings, but not to fixtures attached to the buildings, acquired after April 1, 1998. Depreciation of foreign consolidated subsidiaries are computed by the straight-line method on the estimated useful lives of assets.

The principal estimated useful lives are as follows:

Buildings and structures	3 to 50 years
Machinery and equipment	3 to 12 years
Tools, furniture and fixtures	2 to 20 years

(g) Allowance for doubtful accounts

The allowance for doubtful accounts is provided in amounts sufficient to cover possible losses on collection. The allowance for doubtful accounts of the Company and its domestic consolidated subsidiaries are calculated based on their past credit loss experience and on an estimate of the individual uncollectible amounts. The allowance for doubtful accounts of foreign consolidated subsidiaries is calculated based on an estimate of the individual uncollectible amounts.

(h) Allowance for retirement benefits

The Company and its certain consolidated subsidiaries have retirement benefit plans for their employees. Such benefits are provided through the unfunded lump-sum severance indemnity plan and the funded noncontributory pension plan. The amount of retirement benefits are determined on the basis of length of service, basic salary and certain other factors at the time of termination of employment.

Allowance for retirement benefits has been provided for employees' retirement benefits, based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the balance sheet date. The actuarial gains and losses recognized in the fiscal year under review is being amortized over a ten-year period by the straight-line method from the year subsequent to the year in which such gains and losses are incurred.

(i) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that are deemed to transfer the ownership of the leased property to lessees are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(j) Research and development costs

Research and development costs are charged to income as incurred.

(k) Income taxes

Deferred income taxes are recognized by the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are determined based on difference of between financial reporting and the tax basis of the assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(l) Derivatives and hedging activities

The Company and its consolidated subsidiaries have entered into derivatives transactions in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates and interest rates.

Derivatives are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Receivables hedged by qualified forward foreign exchange contracts are translated at the corresponding contract rates. Also, if interest rate swap contracts are used for hedging and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(m) Appropriation of retained earnings

Appropriation of retained earnings is recorded in the financial year in which they are approved by shareholders.

(n) Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding in each period. Diluted net income per share assumes that outstanding convertible bonds were converted into common stock at the date of issuance at the current conversion price for the year ended March 31, 2007.

3. Change in accounting policies

The Company and its consolidated subsidiaries adopted the accounting standard for bonuses to directors and statutory auditors (Accounting Standard Board of Japan Statement No.4 on November 29, 2005) from current fiscal year. The effect of this adoption was to decrease operating income and income before income taxes and minority interests decreased by the ¥37 million ($313 thousand).

4. Short-term investments and investments in securities

Other securities with quoted market prices at March 31, 2007 and 2006 were as follows:

	Millions of yen		
	2007		
	Acquisition costs	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	**¥310**	**¥923**	**¥613**
Bond	**297**	**306**	**9**
Other	**2,560**	**2,620**	**60**
Subtotal	**¥3,167**	**¥3,849**	**¥682**
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	**¥2,447**	**¥2,281**	**¥(166)**
Bond	**1,000**	**973**	**(27)**
Other	**1,942**	**1,897**	**(45)**
Subtotal	**¥5,389**	**¥5,151**	**¥(238)**
Total	**¥8,556**	**¥9,000**	**¥444**

	Millions of yen		
	2006		
	Acquisition costs	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	¥2,381	¥3,803	¥1,422
Bond	297	305	8
Other	137	146	9
Subtotal	¥2,815	¥4,254	¥1,439
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	¥15	¥14	¥(1)
Other	850	820	(30)
Subtotal	¥865	¥834	¥(31)
Total	¥3,680	¥5,088	¥1,408

	Thousands of U.S. dollars		
	2007		
	Acquisition costs	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	**$2,626**	**$7,819**	**$5,193**
Bond	**2,516**	**2,592**	**76**
Other	**21,686**	**22,194**	**508**
Subtotal	**$26,828**	**$32,605**	**$5,777**
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	**$20,728**	**$19,322**	**$(1,406)**
Bond	**8,471**	**8,242**	**(229)**
Other	**16,451**	**16,070**	**(381)**
Subtotal	**$45,650**	**$43,634**	**$(2,016)**
Total	**$72,478**	**$76,239**	**$3,761**

Other securities without quoted market prices at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in the balance sheet		
	2007	2006	**2007**
Held-to-maturity securities	**¥999**	¥500	**$8,463**
Other securities	**¥1,135**	¥707	**$9,615**

5. Inventories

Inventories at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Finished goods	**¥11,961**	¥7,745	**$101,321**
Work in process	**896**	923	**7,590**
Raw materials	**2,892**	2,936	**24,498**
Supplies and others	**451**	529	**3,821**
	¥16,200	¥12,133	**$137,230**

6. Land revaluation

Under the "Law of Land Revaluation", the Company elected a one-time revaluation of their own-use land to a value based on real estate appraisal information as of March 31,2002. The resulting land revaluation difference represents the net unrealized depreciation of land values and is stated, net of income taxes, as a component of net assets. There was no effect on the statement of income. The details of the one-time revaluation for land remaining as of March 31, 2007 were as follows.

Land before revaluation	¥16,337 million
Land after revaluation	¥8,819 million
Land revaluation difference	¥7,518 million (net of deferred tax assets of ¥25 million)

7. Short-term loans and long-term debt

Short-term loans at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
1.07% unsecured loans from banks	**¥4,561**	¥2,515	**$38,636**

Long-term debt at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
1.19% unsecured loans from banks	**¥3,071**	—	**$26,014**
Zero coupon convertible bonds due November 26, 2010	**10,046**	—	**85,100**
Less current portion	**—**	—	**—**
	¥13,117	—	**$111,114**

On November 27, 2006, the Company issued ¥10,050 million of zero coupon convertible bonds with stock acquisition rights due in 2010. The stock acquisition rights are exercisable during the period from December 11, 2006 to November 12, 2010 at a conversion price of ¥3,060 ($25.92) per share.

The aggregate annual maturities of long-term debt at March 31, 2007 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2008	**—**	**—**
2009	**¥58**	**$491**
2010	**3,013**	**25,523**
2011	**10,046**	**85,100**
2012 and thereafter	**—**	**—**
	¥13,117	**$111,114**

8. Allowance for retirement benefits

The allowance for retirement benefits at March 31, 2007 and 2006 consisted of the following:

Retirement benefit obligation at March 31, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Projected benefit obligation	**¥(4,569)**	¥(4,345)	**$(38,704)**
Fair value of plan assets	**3,621**	3,242	**30,674**
Benefit obligation in excess of plan assets	**(948)**	(1,103)	**(8,030)**
Unrecognized actuarial loss	**(271)**	(116)	**(2,296)**
Net retirement benefit obligation	**(1,219)**	(1,219)	**(10,326)**
Prepaid pension cost	**493**	329	**4,176**
Allowance for retirement benefits	**¥(1,712)**	¥(1,548)	**$(14,502)**

Components of net periodic benefit cost for the year ended March 31, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Service cost	**¥238**	¥269	**$2,016**
Interest cost	**86**	86	**728**
Expected return on plan assets	**(37)**	(30)	**(313)**
Amortization:			
Actuarial loss	**(1)**	41	**(8)**
Net periodic benefit cost	**¥286**	¥366	**$2,423**

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2007 and 2006 were as follows:

	2007	2006
Method of attributing benefit to periods of service	**straight-line basis**	straight-line basis
Discount rate	**2.0%**	2.0%
Expected rate of return on fund assets	**1.15%**	1.15%
Amortization period for actuarial gain (loss)	**10years**	10years

9. Contingent liabilities

Contingent liabilities at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Trade notes discounted	**—**	¥2,382	**—**
Guarantees of customers' loans and lease obligations	**¥4,062**	6,099	**$34,409**
	¥4,062	¥8,481	**$34,409**

10. Derivatives

The Company and its consolidated subsidiaries are exposed to market risk arising from forward foreign exchange contracts. The Company and its consolidated subsidiaries are also exposed to the risk of credit loss in the event of nonperformance by the counterparties to these forward foreign exchange contract. However, they do not anticipate nonperformance by any of the counterparties, all of whom are financial institutions with high credit ratings.

Summarized below are the contract amounts and the estimated fair value of the derivatives positions outstanding at March 31, 2007 and 2006.

Currency—related transactions

	Millions of yen		
	2007		
	Contract amounts	Fair value	Unrealized loss
Forward foreign exchange contracts:			
Sell:			
Euro	**¥652**	**¥794**	**¥(142)**

	Millions of yen		
	2006		
	Contract amounts	Fair value	Unrealized loss
Forward foreign exchange contracts:			
Sell:			
US$	¥1,396	¥1,408	¥(12)
Euro	481	507	(26)
Total	¥1,877	¥1,915	¥(38)

	Thousands of U.S. dollars		
	2007		
	Contract amounts	Fair value	Unrealized loss
Forward foreign exchange contracts:			
Sell:			
Euro	**$5,523**	**$6,726**	**$(1,203)**

11. Net assets

The Corporation Law of Japan (the "Law") became effective on May 1, 2006, replacing the Japanese Commercial Code. Under the Law, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

Under Japanese laws and regulations, the entire amount paid for new share is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

12. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in a normal effective statutory tax rates of approximately 40.4% for the years ended March 31, 2007 and 2006.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Allowance for doubtful accounts	**¥1,414**	¥1,384	**$11,978**
Intercompany profit	**460**	135	**3,897**
Tax loss carryforwards	**419**	107	**3,549**
Allowance for directors' and statutory auditors' retirement benefits	**409**	374	**3,465**
Allowance for retirement benefits	**392**	471	**3,321**
Accrued bonuses to employees	**357**	316	**3,024**
Loss on devaluation of shares of subsidiaries	**310**	—	**2,626**
Impairment loss on fixed assets	**240**	251	**2,033**
Adjustment for difference of an accounting period	**199**	—	**1,686**
Other	**725**	527	**6,141**
Total gross deferred tax assets	**4,925**	3,565	**41,720**
Less valuation allowance	**(807)**	(183)	**(6,836)**
Net deferred tax assets	**4,118**	3,382	**34,884**
Deferred tax liabilities:			
Unrealized holding gain on securities	**(183)**	(621)	**(1,550)**
Tax deductible reserves	**(32)**	(42)	**(272)**
Other	**(183)**	(18)	**(1,550)**
Total gross deferred tax liabilities	**(398)**	(681)	**(3,372)**
Net deferred tax assets	**¥3,720**	¥2,701	**$31,512**

13. Research and development costs

Research and development costs charged to income were ¥2,519 million ($21,338 thousand) and ¥2,644 million for the years ended March 31, 2007 and 2006, respectively.

14. Lease

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥1,014 million ($8,590 thousand) and ¥745 million for the years ended March 31, 2007 and 2006, respectively.

Pro forma information of leased property under finance leases that are not deemed to transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007			**2007**
	Acquisition cost	Accumulated depreciation	Net leased property	Net leased property
Machinery and equipment	**¥5,532**	**¥2,638**	**¥2,894**	**$24,515**
Tools, furniture and fixtures	**124**	**92**	**32**	**271**
Total	**¥5,656**	**¥2,730**	**¥2,926**	**$24,786**

	Millions of yen		
	2006		
	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	¥4,778	¥2,171	¥2,607
Tools, furniture and fixtures	139	74	65
Total	¥4,917	¥2,245	¥2,672

Obligations under such finance leases as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Due within one year	**¥1,017**	¥650	**$8,615**
Due after one year	**2,132**	2,051	**18,060**
Total	**¥3,149**	¥2,701	**$26,675**

Depreciation expense and imputed interest expense for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Depreciation expense	**¥974**	¥707	**$8,251**
Imputed interest expense	**103**	26	**873**

15. Segment information

Business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 was as follows:

	Millions of yen						
	2007						
	Flat knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	**¥38,737**	**¥1,434**	**¥2,188**	**¥4,721**	**¥47,080**	**—**	**¥47,080**
Intersegment sales	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**38,737**	**1,434**	**2,188**	**4,721**	**47,080**	**—**	**47,080**
Operating costs and expenses	**26,611**	**1,293**	**1,615**	**4,768**	**34,287**	**¥5,084**	**39,371**
Operating income	**¥12,126**	**¥141**	**¥573**	**¥(47)**	**¥12,793**	**¥(5,084)**	**¥7,709**
Assets, depreciation and capital expenditures:							
Assets	**¥85,928**	**¥3,608**	**¥1,592**	**¥6,180**	**¥97,308**	**¥31,853**	**¥129,161**
Depreciation	**1,053**	**16**	**39**	**82**	**1,190**	**352**	**1,542**
Capital expenditures	**1,059**	**40**	**44**	**332**	**1,475**	**278**	**1,753**

	Millions of yen						
	2006						
	Flat knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	¥30,163	¥1,803	¥3,126	¥2,788	¥37,880	—	¥37,880
Intersegment sales	—	—	—	—	—	—	—
Total	30,163	1,803	3,126	2,788	37,880	—	37,880
Operating costs and expenses	22,650	1,358	2,290	2,619	28,917	¥4,940	33,857
Operating income	¥7,513	¥445	¥836	¥169	¥8,963	¥(4,940)	¥4,023
Assets, depreciation, impairment loss on fixed assets and capital expenditures:							
Assets	¥72,704	¥4,834	¥3,278	¥4,469	¥85,285	¥24,017	¥109,302
Depreciation	551	13	46	54	664	362	1,026
Impairment loss on fixed assets	—	—	—	85	85	187	272
Capital expenditures	1,932	33	158	153	2,276	198	2,474

	Thousands of U.S. dollars						
	2007						
	Flat knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	**$328,140**	**$12,147**	**$18,535**	**$39,992**	**$398,814**	**—**	**$398,814**
Intersegment sales	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**328,140**	**12,147**	**18,535**	**39,992**	**398,814**	**—**	**398,814**
Operating costs and expenses	**225,421**	**10,953**	**13,681**	**40,390**	**290,445**	**$43,066**	**333,511**
Operating income	**$102,719**	**$1,194**	**$4,854**	**$(398)**	**$108,369**	**$(43,066)**	**$65,303**
Assets, depreciation and capital expenditures:							
Assets	**$727,895**	**$30,563**	**$13,486**	**$52,351**	**$824,295**	**$269,826**	**$1,094,121**
Depreciation	**8,920**	**136**	**330**	**694**	**10,080**	**2,982**	**13,062**
Capital expenditures	**8,971**	**339**	**373**	**2,812**	**12,495**	**2,355**	**14,850**

Notes: Main products of each segment are as follows.
Flat knitting machines: Computerized flat knitting machine, computerized semi-jacquard flat knitting machine
Design systems: Computer graphic apparel design system, knitting CAD system, apparel CAD / CAM system
Glove and sock knitting machines: Computerized seamless glove and sock knitting machine
Other: Parts for knitting machines and design systems, manufacturing and sales of knitting products, yarn for glove knitting machines, machine repair and maintenance, hotel business

Geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2007 was as follows:
The statement of Geographical information of the Company and its consolidated subsidiaries for the years March 31, 2006 is abbreviated, because the rate of Japan goes over 90% against total sales amount and total assets amount.

	Millions of yen						
	2007						
	Japan	Southeast Asia	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	**¥26,263**	**¥16,664**	**¥1,389**	**¥2,764**	**¥47,080**	**—**	**¥47,080**
Intersegment sales	**17,797**	**2**	**2**	**401**	**18,202**	**¥(18,202)**	**—**
Total	**44,060**	**16,666**	**1,391**	**3,165**	**65,282**	**(18,202)**	**47,080**
Operating costs and expenses	**30,561**	**14,947**	**2,232**	**2,856**	**50,596**	**(11,225)**	**39,371**
Operating income (loss)	**¥13,499**	**¥1,719**	**¥(841)**	**¥309**	**¥14,686**	**¥(6,977)**	**¥7,709**
Assets	**¥80,756**	**¥30,127**	**¥17,278**	**¥1,790**	**¥129,951**	**¥(790)**	**¥129,161**

	Thousands of U.S. dollars						
	2007						
	Japan	Southeast Asia	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	**$222,474**	**$141,160**	**$11,766**	**$23,414**	**$398,814**	**—**	**$398,814**
Intersegment sales	**150,758**	**17**	**17**	**3,397**	**154,189**	**$(154,189)**	**—**
Total	**373,232**	**141,177**	**11,783**	**26,811**	**553,003**	**(154,189)**	**398,814**
Operating costs and expenses	**258,882**	**126,616**	**18,907**	**24,193**	**428,598**	**(95,087)**	**333,511**
Operating income (loss)	**$114,350**	**$14,561**	**$(7,124)**	**$2,618**	**$124,405**	**$(59,102)**	**$65,303**
Assets	**$684,083**	**$255,205**	**$146,362**	**$15,163**	**$1,100,813**	**$(6,692)**	**$1,094,121**

Notes: Significant countries or areas belonging to each segment are as follows.
Europe : U.K., Italy Southeast Asia : China North America : U.S.A

Overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen			
	2007			
	Europe	Southeast Asia	Other areas	Total
Overseas sales	**¥3,578**	**¥33,936**	**¥5,302**	**¥42,816**
Total sales				**¥47,080**
Ratio of overseas sales to total sales	**7.6%**	**72.1%**	**11.2%**	**90.9%**

	Millions of yen				
	2006				
	Europe	The Middle East	Southeast Asia	Other areas	Total
Overseas sales	¥4,444	¥3,441	¥23,349	¥1,758	¥32,992
Total sales					¥37,880
Ratio of overseas sales to total sales	11.7%	9.1%	61.6%	4.7%	87.1%

	Thousands of U.S. dollars			
	2007			
	Europe	Southeast Asia	Other areas	Total
Overseas sales	**$30,309**	**$287,471**	**$44,914**	**$362,694**
Total sales				**$398,814**
Ratio of overseas sales to total sales	**7.6%**	**72.1%**	**11.2%**	**90.9%**

Notes: Significant countries or areas belonging to each area are as follows.
Europe : Italy, U.K. Southeast Asia : China, South Korea, Taiwan Other areas : Brazil, U.S.A., Turkey, Syria

16. Business combination

Previous consolidated fiscal year (from April 1, 2005 to March 31, 2006)

Not available

Current consolidated fiscal year (from April 1, 2006 to March 31, 2007)

1.Name of company subject to business combination and type of business acquired from the company, reasons, date, and legal form of the business combination, and name of company resulting from the business combination

(1) Name of company subject to business combination and type of business acquired from the company

Name of company subject to business combination

Win Win Industrial Company Limited

Win Win Group Macau Commercial Offshore Limited

Shima Win Win (Shanghai) Trading Limited

Win Win Group International Limited

Kong Win Knitting Machinery Repair Centre

Type of business

Sales and technical service of computerized flat knitting machines, design systems, glove and sock knitting machines, and parts in the Chinese and Hong Kong market

(2) Reasons for the business combination

The Company has taken over business operations from these companies in order to provide direct sales operations in the Chinese and Hong Kong market, the world's largest knitwear production center and where further growth can be expected in the future as a consumer region at the same time.

The Company believes that intensified technical support under the Company's initiative and accelerated comprehensive sales strategy throughout China as a result of these efforts can contribute to further increases in market share and larger medium- to long-term profit margins despite the severe competition.

(3) Date of the business combination

September 1, 2006

(4) Legal form of the business combination

Acceptance of business transfer

(5) Name of company resulting from the business combination

Shima Seiki Win Win Ltd. (consolidated subsidiary of the Company)

2.Period of performance of acquired business reported in the consolidated financial statements

From September 1, 2006 to March 31, 2007

3.Cost of acquired business

¥10,071 million (672 million HKD)

4.The amount of goodwill recorded, reasons for recording goodwill, and amortization method and period of goodwill

Amount of goodwill recorded	566 million HKD
Reasons for recording goodwill	As the mark-to-market net asset value at the time of the business combination was lower than the acquisition cost, the difference between the two values was recognized as goodwill.
Amortization method and period	To be amortized over a 20-year period using the straight-line method

5.The amount and breakdown of assets and liabilities received on the date of the business combination

Amount of assets	
Current Assets	1,137 million HKD
Fixed assets	7 million HKD
Total	1,144 million HKD
Amount of liabilities	
Current liabilities	1,039 million HKD

17. Subsequent events

Shareholders approved the following appropriation of retained earning at the annual meeting held on June 28, 2007.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥701	$5,938

Report of Independent Certified Public Accountants

To the Board of Directors of
Shima Seiki Mfg., Ltd.

We have audited the accompanying consolidated balance sheets of Shima Seiki Mfg., Ltd. and its consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shima Seiki Mfg., Ltd. and its consolidated subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The United States dollar amounts shown in the accompanying consolidated financial statements have been translated solely for convenience. We have reviewed this translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis described in Note 1.

Osaka, Japan
June 28, 2007

Ohtemae Audit Co.
Ohtemae Audit Corporation

Corporate Data

Corporate Information (As of March 31, 2007)

Company Name	Shima Seiki Mfg., Ltd.
Headquarters	85 Sakata, Wakayama-city, Wakayama 641-8511, Japan Telephone: +81-73-471-0511 Facsimile: +81-73-474-8267
Date of Establishment	February 4, 1962
Capital	¥14,859,800,000
Total Number of Employees	Consolidated 1,584 Non-consolidated 1,060
URL	http://www.shimaseiki.co.jp
Consolidated Subsidiaries	Shima Fine Press Co., Ltd. KnitMac Co., Ltd. TSM Industrial Co., Ltd. Kainan Seimitsu Co., Ltd. Tsukada Shima Seiki Co., Ltd. Marquise Co., Ltd. Shima Seiki Europe Ltd. Shima Seiki U.S.A. Inc. Shima Seiki Win Win Ltd. Nova Knits Inc. Shima - Orsi S.r.l.

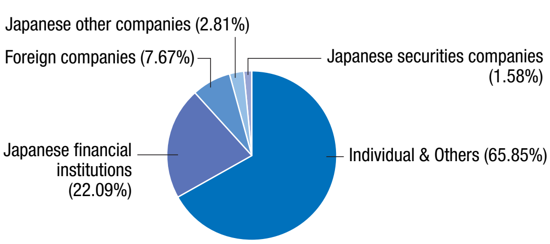
*Wakayama city:
Population, approximately 373 thousand (2006). Capital of Wakayama prefecture, which is located in central Japan and includes the registered UNESCO World Heritage Sites of the Kii Mountain Range and the surrounding Sacred Sites and Pilgrimage Routes. Wakayama city, which encompasses an excellent natural harbor, flourished as a textile industry center since the Meiji era. It enjoys abundant greenery and a mild climate year round.

Investor Information (As of March 31, 2007)

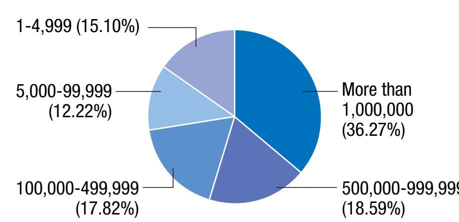
Accounting	Year-End March 31
Month of General Shareholders' Meeting	June
Authorized Common Stocks	142,000,000
Issued Common Stocks	37,600,000
Number of Shareholders	17,721
Stock Exchange Listing	The First Section of Tokyo Stock Exchange The First Section of Osaka Securities Exchange
Auditing Corporation	Ohtemae Audit Corporation

Stock Ownership

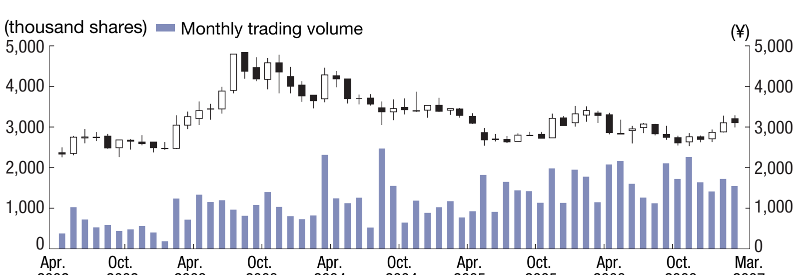
Shareholders Breakdown by Type



Shareholders Breakdown by Number of Shares Held



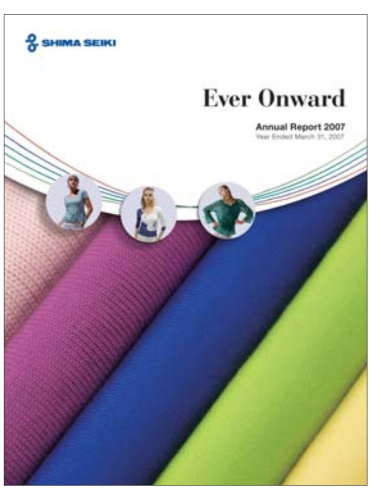
Share price and trading volume on the Osaka Securities Exchange



SHIMA SEIKI

Shima Seiki Mfg., Ltd.

Headquarters: 85 Sakata, Wakayama-city,
Wakayama 641-8511, Japan
Phone: +81-73-471-0511 Facsimile: +81-73-474-8267
ir@shimaseiki.co.jp
http://www.shimaseiki.co.jp/



About the cover sheet

This photograph shows a knitwear sample based on yarn and gauge combinations that were manufactured using the computerized flat knitting machine of the Company.
A wide variety of mechatronics, computer engineers, and designers work together to offer new and attractive products on a worldwide basis–which represent the diversity of the Company.

R100 PRINTED WITH SOY INK™
Printed in Japan on recycled paper